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EDITORIAL

As We See It

The "investigation" into the action of President Truman in relieving General MacArthur of his command in the Far East continues to drag along, but interest in the affair is lagging. For one thing, the obvious effort of so many to gain political capital from it all, as well as the counter tactic of preventing loss of political standing, has doubtless long ago wearied many, if not all, thoughtful observers—and probably led to the conclusion that not a great deal of good could come from further prolongation of the now stale drama. It is today clear—as it was before all this started—that the Far East policy of the Administration, if it can be called such, has certainly not been masterful. This is, perhaps, particularly true of our handling of the Korean situation from the day we first entered that unfortunate land. It is now clear, as it was from the first, that General MacArthur cannot claim immunity from blunders or absurdities in some of this oratory, and that certain acts of his as "area commander" were indeed unprecedented and, as military matters go, unpardonable.

But where does all this leave us? This is a question, the answer to which is certainly not easy to find. Not more at most than the beginning of wisdom is to be found in Korea. It is, of course, obvious that vacillation, lack of clear purpose, neglect to be ready to deal with obviously quite possible developments in Korea, and failure apparently even to be ready with a decision in advance as to what we should do in the circumstances which actually developed, are basically responsible for much of our embarrassment in Korea. It is now clear that our determination to "resist" aggression in that ill-fated land was an

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PICTURES IN NEXT WEEK'S ISSUE—The "Chronicle" of Thursday, June 7, will include a Special Section containing pictures taken at the Annual Field Day of the Bond Club of New Jersey.

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(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

NORMAN S. HILL
 Partner, Hill & Co., Cincinnati, Ohio
 Members of N. Y. Stock Exchange

Lion Oil Company

In March of 1950 I furnished an article on the company which appealed to me at that time, and my opinion of this company has not changed. That company was the Lion Oil Company of El Dorado, Arkansas, and at that time I tried to point out some reasons for my bullishness.

The stock at that time was selling on the Big Board at 28½. I do not believe there have been five days since that time that it has sold as low as that. Its high was 46 made just a short time ago. Since the last article appeared, great strides have been made by Lion Oil both in their Refining Department and the Chemical Division.

The Ozark Ordnance Works has been greatly added to since its purchase from the government and their production has been stepped up accordingly. This plant is one of the most modern of its kind in the United States, and is now producing 570 tons of ammonia per day, approximately one-fourth of which is sold as such. The remainder is used in Lion's plant for the manufacture of other materials. The main products of this plant are nitrogen fertilizer and nitric acid.

The Chemical Plant employs approximately 1,000 people and is a 24-hour-day operation.

The gas engine building contains 62 large gas driven engines, ranging from 1,000 to 1,400 horsepower. This is believed to be the largest concentration of gas driven horsepower under one roof in the world. The building containing this power is in the shape of a cross, 792 feet long on the stem, and 588 feet long on the bar of the cross. Electrical power is generated from these engines in sufficient quantity to supply a city of 250,000 people. The plant circulates 133 million gallons of water daily.

In the Refinery Division of the company, now that the Scurry development is practically completed, the company is producing more crude per day than the refinery capacity in El Dorado, and they now find themselves sellers of crude for the first time in the history of the company.

Some of the products manufactured in the Refinery Division include Ethyl gasoline, Naturalube motor oil, Butane and Propane gas, tractor fuels, diesel fuel, road oils, asphalt, both roofing and paving, greases, plastic cement, and rust preventives.

The Lion Oil Company is now employing approximately 2,300 people, and the compensation paid to their employees is now running at the rate of more than \$10 million annually. The company is expending approximately \$40 million a year for the purchase of supplies and raw materials.

The company is the largest individual shipper on any railroad in the State of Arkansas, and the third largest shipper on the Missouri Pacific's entire system. Us-

ing all means of transportation, rail, water and trucking, the Lion Oil Company moves the equivalent of 50,000 railroad cars of finished products each year.

This is a forward looking organization, and, subject to the imposition by the government of abnormal taxes, I know of no other company that has more possibilities for development and production, with excellent management by men of high integrity. I feel that this stock can be bought for long-term investment holding and should prove an excellent investment over the coming years.

NORMAN T. ROBERTSON
 Shelby Cullom Davis & Co.
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American Insurance Co. of Newark, N. J.

Outstanding in the comparatively small group of centenarian insurance institutions is the American Insurance Company of Newark, N. J. This is the parent company of the so-called American Group (consisting of American Insurance, Bankers Indemnity and Columbia Fire). Incorporated in 1846 as the American Mutual Fire & Marine Insurance Co., it issued profit sharing dividends to its policyholders in scrip which, by the year 1872, had grown to \$600,000, in addition to which the company had accumulated a net surplus of \$291,907. Upon reorganization as a stock corporation in that year the \$600,000 scrip became capital and the \$291,907 surplus.

Thereafter the American grew as the country grew but probably at a faster rate as its annual report for 1950 shows assets of \$112,411,000, capital of \$5,000,000, annual premium income of \$47,563,000 and policyholders' surplus (capital plus surplus) of \$43,160,000. There are now outstanding 2,000,000 shares. Par value \$2.50.

Comparing the company's investment income per share for the years 1949 and 1950 we find \$1.15 in the former year against \$1.84 in the latter. At this rate of progress, the earnings for 1951 might easily exceed \$2.25 which might indicate an increase in the present \$1 dividend.

Marketwise, American shares at \$20 are cheap as the current discount from liquidating value is about 40%.

For the five year period ending with 1950, the company's growth has been noteworthy as shown by a premium income gain of about 50%, a total income increase of about 50%, and a combined loss and expense ratio of 92%, indicating an underwriting profit of 8% in addition to investment gains and an increased value in the unearned premium reserve. And this fine old and truly American company has been paying dividends (in increased amounts from time to time) without interruption since 1873, just a year after reorganization on a stock basis.

As to the future, the writer feels assured that American will show better results than heretofore. This is especially true as to the current year, as its wind-

This Week's Forum Participants and Their Selections

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If Peace Breaks Out

By MELCHIOR PALYI

Dr. Palyi, pointing out the Administration has virtually committed itself to MacArthur thesis that Formosa must be defended, contends Russia is in no position to interfere in Far East. Says logic seems to be on MacArthur's side, and attacks Administration's vacillating foreign policy. Holds mere threat of sanctions is likely to force Reds to evacuate Korea, and should peace come in Far East, we might be faced with worst economic crisis since the 1930s. Notes ending of buying spree, but warns continuation of preparedness economy means end of monetary expansion is not yet in sight.

MacArthur already has accomplished quite a little, though piecemeal and by indirection.

As recently as March 31, Acheson asserted, "and maintained ever since," quoting the New York "Times," "that while the U. S. would oppose the seating of Red China (in the UN) under coercion, we would not veto that action, and that . . . we would accept the judgment of the majority." But presently, Secretary Marshall speaks most emphatically of his "very decided impression" that we would use the veto against Mao's entrance into the UN. Also, the State Department definitely refuses to let Mao in on the Japanese peace treaty.

And there are other symptoms. As of late, the Administration has virtually committed itself to the MacArthur thesis that Formosa must not go overboard; it is sending advisors and defense materials. The British and the French are realistic or opportunistic enough not to challenge an American public aroused by MacArthur (whom they condemn unanimously). Step by step, they approach the General's point of view, such as by embarguing war material export to China. Moreover, Foreign Secretary Morrison has announced an about-face: Formosa need not be "discussed" at present, but should be left to the UN decision later on.

All of which does not herald an impending change on the Far Eastern scene. It means, so far, the attempt to placate the American public by a somewhat sterner policy, nothing more. General Ridgway's boasting that the enemy has passed the apex of its force has been disproved a fortnight later. Nor is there any indication that the Administration has changed its mind and is ready to throw at China the full blast of our aerial and naval power, or to unleash Chiang Kai-shek, notwithstanding Dean Rusk's ideological blast against Mao Tze-tung that has been disavowed by Acheson.

The Europeans are not even willing to extend the arms embargo to countries like Indonesia which keep exporting to Red China, thus thwarting the whole

Continued on page 15

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The Business Outlook

By RAYMOND RODGERS*
Professor of Banking, Graduate School of Business
Administration, New York University

Analyzing short-run business outlook, Dr. Rodgers foresees some liquidation of accumulated inventories due to tightening credit, thus causing temporary downward readjustment in several sectors of the economy. Says prices are in much more vulnerable position than is generally realized, and a "peace scare" may have serious effects. Advises businessmen to be cautious and "to get your financial house in order." Foresees in months ahead a severe inflationary test.

When I talked to you on May 23, 1949, you were quite concerned about declines in business activity in many lines, just as you are today. To reverse that downward trend, the monetary authorities, beginning in March, 1949, had relaxed consumer credit restrictions several times, had reduced reserve requirements and had otherwise assisted in credit expansion efforts. The Administration had organized inter-departmental committees in Washington to speed up the disbursement of government funds and to funnel government orders for supplies and equipment into certain areas where unemployment was beginning to become a problem.

At that time, I reassured you that, and I quote, "Without a substantial reduction in the means of payment, and without a material reduction in the disposable income of individuals there cannot be a serious deflation." This conviction was repeated three times in the talk and, as you will recall, the business activity index turned upward in August and, with the exception of one month, the trend has been sharply upward ever since. This is repeated not in any spirit of "I told you so," but because today I shall again take a contrary viewpoint! As you gentlemen know, during the past two months, consumer durable goods sales have not been up to expectations, soft goods in many lines have encountered serious sales resistance, inventories have accumulated and prices have weakened. As a result, some businessmen have become greatly concerned about the future. Is this fear of serious deflation as unwarranted today as it was in

*An address by Prof. Rodgers at the Annual Convention of the Empire State Petroleum Association, Buffalo, N. Y., May 21, 1951.



Raymond Rodgers

Three Threats

As I see it, today the United States is confronted by three threats. One is Russian imperialism, another is international communism, and the third is inflation. All these are important and must be understood if we are to defeat them and maintain our way of life.

Russian imperialism is not a new threat; in fact, it is as old as modern Russia. It can be met and, it is being met by force. We need not fear Russian imperialism. If it is merely a question of cold steel, we can out-produce Russia and all her satellites without much strain on our resources. As you gentlemen well know, the United States is producing at the rate of 108,000,000 tons of steel per year, as compared with 78,000,000 tons in 1949, and with about 26,000,000 tons in the Soviet Union. Moreover, they assured me in Pittsburgh last week that within two years from today our output will be around 120,000,000 tons annually. As for that other sinew of modern war, oil, you gentlemen know even better than I do that Russia is not even in our league!

I regret to say the second threat, the fight against international communism is much more difficult. However, once we understand the basic aims of international communism, we shall also know better how to cope with this modern scourge which enslaves the bodies, minds and souls of men! Let there be no mistake about it: Communism's basic aim is to destroy the capitalistic system wherever it is found, and they adopt all means, fair and foul—primarily foul—to undermine the free societies. The Russians realize that inflation and deflation, periods of booms and depressions, are the best way to undermine a free society. Hence, the fight against international communism must be directed to keeping our economy and, above all, the purchasing power of our dollar sound.

The third threat, the threat of inflation is very real; its causes are only too well known. Presently, the danger stems from the necessity of increased military ex-

penditures, aggravated by the fact that the economy is already operating at full speed. In plain, simple economic terms, these military expenditures mean the diversion of a portion of the productive capacity of the country from the production of civilian goods to the production of military goods. At present, only between 8 and 9% of the gross product of the country is going for military purposes, but toward the end of the year, 12 to 15% will be used for such purposes. This means that the supply of commodities, especially consumer durable goods, will decrease at the same time that spending power increases. Unless something is done to check this spending power, or to increase production—neither of which is easy to accomplish—commodity prices inevitably must rise. There are no two ways about this!

The Short-Run Outlook

In order to understand current business developments and avoid being misled on the long-run outlook, we must take a good hard look at the short-run factors and appraise their relation to the long-run probabilities. Let me first give you my conclusions on the immediate outlook, and then we will analyze the pertinent facts from which the conclusion is derived. The short-run situation is marked by the accumulation of large inventories, based to a considerable extent on bank credit. The tightening of credit, the adoption of a more flexible open market policy by the Reserve Banks, and the forthcoming more rigid credit controls are bound to lead to a liquidation in inventories, which may temporarily cause a downward readjustment in several sectors of the economy, particularly in the soft goods fields.

Now, let us take a look at some facts.

Orders and Inventories

On the manufacturing side, the present situation can be epitomized with this statistic: At the beginning of 1950, unfilled orders totaled \$19 billion, but by the end of 1950, these backlog had soared to \$39 billion—and today, they are more than \$50 billion! That speaks for itself—and loudly!

Paradoxically, on the distribution side, inventories, instead of shrinking as the unfilled orders might indicate, actually increased nearly \$10 billion during the calendar year, to a grand total of \$61.6 billion in December. This had further increased to more than \$66 billion by the end of March. Only a little more than half of this over-all increase of \$15 billion was caused by higher prices, so, it represents a substantial increase in actual physical quantities of goods. The March inventory total of more than \$66 billion is indeed monumental compared with the \$26 billion of 1929, or the prewar total of \$25 billion in 1941.

Of course, these totals do not include government stockpiling and military inventories; nor do they include the consumer inventories John Q. Public has "bunked" away (just in case!), which undoubtedly are at all-time peak levels! To wide-awake businessmen, this inventory situation speaks volumes—it requires no elucidation!

In connection with this inventory situation, two closely related facts should be kept constantly in mind:

First, the Federal Reserve Board Adjusted Index of physical production (actual goods; not dollars) is currently above 222% of the 1935-39 average. This represents an increase of 20% during 1950 to the highest peacetime level ever attained; in fact, it is within less than 10% of the World War II peak!

Second, rearment will take considerably less than 15% of total production this year; in other

words, more than 85% will be left for civilian consumption.

These large inventories, coupled with the current high rate of physical production and the limited amount to be taken by the military, clearly indicate that there will be far more goods available for nonmilitary consumption than in generally anticipated. In short, for consumers, we can add to greatly expanded inventories more than 85% of a much larger production "pie"! Nonetheless, mindful of the shortages of World War II, and fearful of further declines in the purchasing power of the dollar, the man in the street has been, to use the right word, panicked by the talk of cutbacks and other measures, and has bought wildly and blindly. This unreasoning stampede has at last slowed up; it couldn't continue forever—there is a limit even to madness!

Don't misunderstand me; I am not guaranteeing that prices will continue to go down for three or four months before they resume the upward march; in fact, they will not go down at all in many lines! I am just saying, don't go overboard—moderation is always the best policy in business.

Prices More Vulnerable Than Realized

It follows that prices are in a much more vulnerable position than is generally realized. A peace "scare"—the very term is ironic—could have serious effects on our economy through cutbacks in military spending and cessation of hoarding and other accelerated buying. I hasten to add that I do not expect this, but the possibility should not be overlooked by business. As you know, the Russians have the initiative, and even the faintest indication of the end of their intransigence would be seized on and magnified in this country, as we are so anxious for peace. Undoubtedly, any consequential conciliatory move by Russia would summarily end what my distinguished colleague, Doctor Marcus Nadler calls the "inflation psychosis"; and, businessmen should be in a position to view such a development with equanimity.

A word or two as to why prices are so high will be helpful in understanding their vulnerability. Contrary to popular opinion, the increase was not caused by government spending: Since the end of World War II, the government has taken in more than it spent! Nor, did the increase come from deficit financing: Since the end of World War II, there has been no deficit financing! And, finally, the increase did not come from the purchase of bonds by the banks: Since shortly after the end of the war, the total of government bonds held by the banks has steadily declined—in fact, declined nearly \$30 billion!¹ What, then, did cause the sharpest price increase in our history? The answer is: People—people in action. The

¹ All banks in U. S., 12-31-45, \$101,288,000,000, 12-27-50, \$73,290,000,000. All commercial banks, 12-31-45, \$90,606,000,000, 12-27-50, \$62,390,000,000.

anticipatory buying spree set in motion by the Korean involvement caused people to use their income to buy, to borrow to buy, and to draw down their savings to buy. Even more important, business did exactly the same thing! The results were foredoomed.

Voluntary Credit Restriction Program

At present, the commercial banks, life insurance companies and investment bankers, through two committees operating under the auspices of the Federal Reserve Board of Governors, are endeavoring through voluntary measures to curb the further expansion of credit. Should they be successful, no other measures may be needed. If, however, the volume of bank loans should continue to increase, one may expect with a fair degree of certainty a tightening of credit by government direction.

Businessmen, particularly those who have borrowed money from the commercial banks to carry more than normally needed inventories, would be well advised to consider carefully the possible effects of tighter credit restrictions. This implies not merely higher rates of interest, but also inability to borrow or to renew loans. A debtor who is forced to liquidate or to reduce his loan may be compelled to dispose of inventories even if liquidation results in substantial losses. The possible adverse effects of tighter credit restrictions should be carefully considered in order to avoid the necessity of selling inventory on a distressed market. Businessmen, in general, during recent years paid no attention to the credit policies of the monetary authorities; but now, they will be well advised to pay close attention to such policies, especially if they are borrowing on any consequential basis.

This voluntary Credit Restriction Program, and the probability that there will be further government restrictions, spotlight the importance of having adequate capital to support your scale of operations. The great danger of inflation to the businessman is that he generally confuses inventory mark-up with real profit. This mistake often causes him to expand beyond true profitable limits. To finance this expansion, he borrows in one way or another.

Continued on page 17

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The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Confronted with an increase in conversion difficulties, total industrial production last week continued to hold at the level of the preceding week, but was noticeably higher than that of a year ago.

In the latest week, that of May 5, initial claims for unemployment insurance altered their course of previous weeks and trended noticeably higher. A bright spot in the week's news was the announcement that a new all-time high in daily average oil production was achieved. Output of steel dipped fractionally last week to 103.6% of capacity, which was close to the record mark, while automotive production advanced slightly in the week, but was at a much lower level than that which obtained one year ago.

Despite a substantial increase in set-asides for defense and defense-support work, steel leaders believe supply and demand for steel may come into balance much sooner than is generally believed, says "Steel," the weekly magazine of metalworking. Because markets for various consumer goods are close to the saturation point and because of Federal credit restrictions there may be at least a temporary period this year when there will be more steel than will be absorbed.

Steel mill rolling schedules, states this trade medium, are shaping up rapidly for July. With only a few day's lead-time remaining, most of the mills are lining up their production plans for the month with a sizably heavier burden of defense-support work projected. Some producers already are sufficiently committed for defense tonnage to round out their DO-rated quotas and they are advising civilian consumers as to what tonnage they can expect to get on unrated quotas. Such allotments will be smaller for July and in all probability still smaller for August. Both large and small consumers will be hit.

Steelmaking operations continue to be pushed at near-record pace. But curtailments for repairs and vacation interruptions loom just ahead. Also, raw material shortages are being encountered. Because of the extreme scarcity of nickel, molybdenum, cobalt and columbium, the National Production Authority has notified producers of alloy and stainless steels not to use their metals in June production for defense rated or directed orders until further notice. This action was taken because melt schedules for May show substantial increases in use of these alloys.

Despite brief interruptions in its operations, the auto industry continues to show a stability which should bring passenger car completions to 514,000 units in May, for its second-best monthly volume since last October, Ward's Automotive Reports stated.

With NPA restrictions on metals permitting a maximum of 470,000 assemblies in June, United States plants are expected to show a second-quarter total of 1,492,000, only 9% below the first-quarter figure, according to the agency. This would bring first-half car production in the United States to 3,100,000 units, second only to the record January-June volume of 3,106,000 established last year.

The government, it was learned last week, gave about 100,000 small retail stores the choice of determining price ceilings under either the general price freeze order or the retail mark-up order. This means that if a store chooses to remain under the general freeze, it will not have to file detailed pricing charts by May 31, as required by CPR-7, the retail order. Both the types of goods sold and the volume of business done by each store must be considered in determining whether it is exempt from chart-filing provisions. Small retailers remaining under the general freeze will be allowed some price boosts to offset increased costs.

Plant shutdowns resulted in two industries from shortages of rubber and steel. In Akron, two companies stated they were cutting operations because they have used up their rubber allotments for May. The General Tire & Rubber Co. will shut down its tire-making facilities for one week, beginning Saturday evening, May 26. Seiberling Rubber Co. will idle its passenger-tire division from midnight Saturday until midnight of this Wednesday.

In Toledo, the Champion Spark Plug Co. will close its plant for at least a week, beginning last Monday. The action was necessitated by the failure of a large steel company to make a delivery

Continued on page 36

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Business Opportunities

By ROGER W. BABSON

Mr. Babson, contending business opportunities for young men are as good today as 50 years ago, cites eight reasons to prove the point. Stresses savings as best means to advance from wage-earner to employer.

During the past winter many young people have complained to me saying: "There are not as many good opportunities today for young

people as there were 50 years ago." Let me answer by saying this complaint is all wrong so far as it applies to those willing to do a good day's work. Here are eight reasons to prove it.

(1) Although our United States population has increased from 75,994,575 in 1900 (when I got my first job at \$10 per week) to 153,490,000 today, the demand for workers has increased much more. Hence, population figures are in favor of today's young people.

(2) There are many more opportunities for free advanced education than ever before. These include free Degree Scholarships in all good colleges, very cheap Extension Correspondence Courses in most subjects, and excellent Public Libraries where one can get a good education by merely systematic reading.

(3) The average young person today will not work hard or for long hours. He wants an "easy job." This gives those few who are glad to work hard and long much better jobs and faster promotions.

What Employers Want

(4) Employers want young workers to have good habits—those who let liquor alone and don't smoke during business hours. As each year fewer job applicants appear to qualify for good habits, those few who do possess them have an advantage.

(5) Those who belong to no labor union also have an advantage in getting good jobs and fast promotions. This gives another opportunity to young people not possessed by elders.

(6) Another advantage young people have today is the ability to borrow money for a home. When I got married it was necessary to put 40% cash down. We

Continued on page 6

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Observations . . .

By A. WILFRED MAY

This column dated May 3 under the caption, "THE STOCKHOLDERS' MEETING, MR. AVERY, AND THE FUNDS" decried the widely embraced if-you-are-dissatisfied-sell-your-stock philosophy, and suggested the more active discharge of their stockholders' company responsibilities (as attendance at annual meetings) by investment company management and others who are in a fiduciary position.

Below is some comment thereon, emanating from a variety of the interested sectors.

From an Exchange President and Former SEC Commissioner

DEAR MR. MAY:

I think your article on "The Stockholders' Meeting, Mr. Avery and the Funds" was excellent and I hope that investment trusts and security holders generally will take your suggestion seriously.

As you know I have always felt that corporate democracy as well as political democracy is essential to the maintenance and healthy growth of our capitalistic system. Failure to exercise one's vote on corporate affairs as in the case of political contests can lead to unfortunate consequences.

Investment trusts and funds have attained an important place in our economy and as the trustees for thousands of large and small investors they have an obligation to do all that is necessary properly to protect the funds entrusted to them. It is my view that such responsibility clearly requires the voicing of their opinions with respect to corporate matters affecting the corporations whose securities are held in their portfolios.

Intelligent corporate management will welcome suggestions from informed security holders. Investment trusts and funds are in a position to offer constructive assistance and should do so.

EDWARD T. McCORMICK,
President, New York Curb Exchange.

New York City

From the Financial Officer of an Important Exchange-Listed Company

DEAR MR. MAY:

I read your article appearing in the "Chronicle" of May 3 with a great deal of interest.

The observations that you make in connection with the theory that a stockholder should sell his stock if he dislikes management is very enlightening. Obviously, management's responsibility to the stockholders is a definite one and I think it would be a mistake if management in its decisions would proceed on the theory that the only recourse stockholders would have would be to sell their securities in the company if they dislike management's actions.

I enjoyed your article very much.
Chicago, Ill.

W. J. L.
Continued on page 14

Announcing the formation of
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June 1, 1951

The firm of Schaffer & Co. has been dissolved as of May 31, 1951.

Celanese Preferred—As a Fiber And as an Investment

By IRA U. COBLEIGH

Author of

"How to Make a Killing in Wall Street and Keep It"

Providing a thumb-nail sketch of one of the principal underwritings of 1951, and giving some account of the diversity and growth of Celanese Corporation of America.

With the markets of the past fortnight definitely on the soggy side, the attention of investors has again been called to the necessity of some bastions for defense, in the event that the Stock Exchange assumes a solidly ursine mantle (fancy talk meaning "to turn bearish").

On April 5 in an article in these columns called "The Convertible Is Now in Season," the protective value of American Tel. and Tel. convertible debentures was outlined, and today we still stress prime convertibles — this time the new Series A preferred of Celanese Corporation of America.

This is, indeed, no trivial financial emanation — \$100,000,000 face amount of 4½% convertible preferred offered to common stockholders, in ratio of 6 shares preferred for each 35 shares of common) for purchase at \$100; and to old 7% second preferred stockholders for exchange at the rate of \$150 par amount new Series A for each old share held; with the balance of either unsubscribed, or unexchanged, stock underwritten by an elegant group of 200 investment houses from coast to coast. The underwriting was a solid success and the new shares immediately pleased everybody but the shorts by moving well above the subscription price. They now appear on the Stock Exchange at around 107.

The new money is being well used first to call in at 105, 420,000 shares of old 4¾% first preferred; and second, to provide funds for about a \$32,000,000 addition to plant in the next year. As we shall see, a company growing as rapidly as Celanese can make most profitable use of plant expansion.

Just how good a preferred is this, anyhow, and how well can it fight off a declining stock market (if we get one)? Answering the first part, net assets appear to be \$228 per share, and an average of earnings for five years (1946-50) would have covered, on an overall basis, the 4½% preferred dividends 4½ times; and that's pretty velvet coverage! So it has qualities gratifying to "prudent man" investors. But is it too high priced? Is it a sucker for early market erosion? I think not. I'm not very good at this "market survey" routine, but I did go to the trouble of asking half a dozen Wall Street analysts with widely scattered backgrounds this question: "If Celanese 4½ preferred had no conversion gimmick, what should it sell at on a 'straight income' basis?" The answers were all between 98 and 99. So to be conservative, we'll suggest that Celanese 4½ preferred is worth 98 in a damp cellar! But it now sells at 107; so by a perfectly brilliant bit of slide rule work, we see that the built-in right of each of these shares to convert (into common at \$55 a share till May 2, 1961) is today appraised by the market at exactly \$9. With common at 48, and paying \$3, \$55 is not such a remote target in a wood pulp, and requiring vast



Ira U. Cobleigh

brisk market; and a 10-year call on the common of so dynamic a company as Celanese is by no means to be sneezed at. (For comparison a five-year warrant on Universal Pictures at 10, with the stock at 8¾, is quoted around \$3.50.) You may protest that a 10-year call on Celanese at this moment is too highly tagged at \$9 a share; but you will agree it would be a sterling value at \$5. If you do that, what you are really saying is that CZ preferred is an authentic "buy" at 103; and you may even go overboard by lodging a G.T.C. order at this figure.

Here I've been spending all this time talking about CZ, using nothing but numbers. That's kind of a backward way to describe a textile enterprise, as somewhere along the line you'll want to know what Celanese is, anyway, and what it does to deserve such an exalted investment rating. I wanted to know, too, and learned that Celanese Corporation was the pioneer in commercial production in the United States of textile fibers made from cellulose acetate and is the biggest producer of these fibers on our shores, turning out rayon under the trademark "Celanese." Then I got real curious and sought to learn something about these acetate processes.

Well, here's what the prospectus says and, with some misgivings, I quote:

"Processes used in the United States for the production of yarn from cellulose are the acetate, viscose and cuprammonium processes, production by the latter process being relatively small. In the case of the viscose and cuprammonium processes, the yarns produced are regenerated cellulose, whereas acetate yarns are a true chemical compound and have chemical and physical properties which differentiate them from viscose process yarns and which impart distinctive qualities to fabrics made therewith." Whew! I didn't know it was loaded!

Seriously, the foregoing was cited not to be humorous or satirical but to demonstrate how arduous and formidable is the task of the investor to glean useful knowledge from the sometimes bewildering elaborate factual presentations contained in prospectuses.

So let's look at Celanese another way. If you walk into your living room this evening you will probably be touching, standing or sitting on, or looking at, Celanese yarns in a dozen different forms — carpets, upholstery, drapes, crepes, satins, alpacas, jerseys, not to mention such submerged items as girdles, ladies' lingerie, and other elements of ladies' apparel which barely escape TV exposure! The company also produces a new high strength yarn, Fortisan, all of which has recently been snapped up for military products as parachutes, shrouds and uniform linings.

Nor does this diverse enterprise stop there. It produces cellulose acetate plastics, and has added new plant capacity for that purpose; it turns out a whole line of chemicals from liquid petroleum gases, including acetone, formaldehyde methanol, and other alcohols.

Naturally, its principal raw material is cellulose derived from wood pulp, and requiring vast

tracts of timber to keep the supply flowing. This timber and the resulting cellulose, is importantly supplied by a Canadian subsidiary, Columbia Cellulose Co., Ltd.

So in summary, CZ, while primarily a rayon manufacturing enterprise, spills over into chemicals and plastics, operating directly or through subsidiaries, 12 plants and two research laboratories in the United States — a dominant leader in a highly competitive industry. Growth here has been fantastic. Look at 1941 with sales at \$66,227,000 and net of \$7,106,000; then ponder over 1950 results — sales \$232,484,000 and net of \$40,361,000.

Management, which originally was pretty well bound up with the Brothers Dreyfus (Dr. Camille Dreyfus and the late Dr. Henry Dreyfus) is now broadened under the able leadership of Mr. Harold Blanke. The board is no array of formal financial penguins, seven of its ten directors being officers active in the affairs of the company.

The impressive history of Celanese Corporation of America, its forward-looking plans for intelligent expansion, especially in chemicals and plastics, is aggressive and productive research, all suggest that the growth curve of this textile titan has by no means reached the "flattening out" stage. And surely a sheltered way in which to share in the future progress of CZ is through ownership of the 4½% convertible preferred — preceded only by \$74,375,000 of funded debt.

Celanese is indeed deeply woven into the fabric of American life. It has become a word in rayons like frigidaire in refrigerators. And in tailoring your own investment list, you too may, in due course, find Celanese preferred!

Continued from page 5

Business Opportunities

could borrow only 60% and only for three to five years. Now, any good couple can borrow 80% or more with payments extended over 20 years. In addition, they today have Social Security, Accident Insurance and other benefits which Mrs. Babson and I never had.

(7) As a statistician, I must remind readers of how the country's birth rate will help graduates this coming June. If you were born during the early "thirties" when there was great unemployment and few marriages and babies, you now have not so many to compete with.

(8) The pension plans which are now rapidly increasing not only eliminate the oldsters more rapidly, thus making promotions easier for you, but they also furnish you security in your later days.

Don't Let the Draft Worry You

I repeat my previous advice that you go ahead with your plans for college or for getting a job the same as if no war were possible. Congress is acting on Universal Military Training just as I forecast. Moreover, those who are drafted are about as safe as those who stay at home; while the 85% who return okay will have benefits as veterans which the non-drafted boys will not have.

One more thought. The question as to whether you will become an employer some day instead of always remaining a wageworker will largely be determined by this simple rule: If you save some money each week, you can some day become an employer. If you don't save money each week, you will always remain a wageworker.

No Ground for Bearish Opinions

By BRADBURY K. THURLOW
Partner, Talmage & Co.
Members, New York Stock Exchange

Mr. Thurlow points out reasons why stock prices face no collapse and may continue upward. Says views of pessimists are based on "inherited and undigested theories."

There is a curious aversion in and around the investment community toward accepting some of the eminently logical processes of the marketplace. At times this aversion has taken on almost a fanatical tinge as individuals who have had the bulk of their investable capital in cash or government bonds for the past three years remain firmly convinced and try to convince

work lower because of all the uncertainties.

In other words, no person who is buying stocks today, after a two-year rise and in open defiance of the above obvious facts, can know what he is doing. Yet stock prices, after four months of severe psychological warfare, still show an uptrend, with new 20-year highs established this month. Possibly those who have been recent buyers are not as foolish as others may think. They may not have followed the obvious course of conduct, but so far it has been mostly a profitable one, and it would seem to me that the passage of time and steady accumulation of income is strengthening their position.

Market Outlook Favorable

Few people may agree with me on this point, but I think the future, as far as stock prices are concerned, is easier to foresee today than at any time since Mr. Truman's reelection. (By future I mean the important trend over the next two years or so where money will be made or lost and not the inconsequential one or two months' wiggles which are the object of so much misguided attention.) I believe that there is a law of human behavior whereby an individual who makes a major mistake in judgment is caused ultimately to lose money by that mistake. If individual experience is averaged into that of a group the offsetting influence of luck becomes negligible. Assuming that the majority of those looking for lower prices today are the same who were doing so two years ago, I believe that the same mistaken reasoning or emotional bias is going to force them at some future date to reverse their positions and begin buying stocks at a time when they will be equally wrong. When this reversal takes place, I hope I'll have the courage to disagree with them as strongly as I have to date. Until that time I am willing to remain with our optimistic opinion on stock prices, based primarily on the idea that in today's disintegrating world there is no refuge for money which looks safer or more promising.

Still Crying "Wolf"

That many erstwhile prophets of lower prices do not yet recognize that they have been wrong is immediately apparent from five minutes' conversation or (if they are the literary type) one paragraph of their market opinion. The fact that they are still predicting collapse after being wrong for two years strikes me as being perhaps the strongest of all arguments for higher prices, and this statement is made in all seriousness. One will perhaps point to the famous statistician who predicted collapse as early as 1926 and stuck to his guns until he was right, but today's pessimists, in my opinion, are not comparable. In the first place, they are a large and vociferous segment of professional investment opinion, not a lone economist. Secondly, they did not form their forecasts of lower prices after a long, speculative rise but near the bottom of one of the most protracted declines security prices have ever witnessed. Thirdly, their pessimism has been based on inherited and undigested theories: "Business declines follow every war"; "1952, because of cycles, will be the worst year since 1932"; empirical catch phrases: "The Dow-Jones Industrials have never failed to sell below 200 in any year"; "Formula timing by our plan required 90% cash or governments at the 220 level"; or outright nonsense: "Stocks will go down because the government is unable to balance the budget"; "Higher taxes must force prices lower." These give a fair sampling of some of the principal opinions heard during the past two years. Today they all apparently find common agreement in the proposition that if peace comes the whole economic house of cards must collapse; if war comes, the stock market will collapse; while continuation of the status quo will obviously cause stock prices to

Schaffer, Necker Co. Formed June 1st

PHILADELPHIA, Pa. — Announcement is made of the formation of Schaffer, Necker & Co., June 1, with offices in the Packard Building, to act as dealers in state, county, municipal and revenue bonds, specializing in City of Philadelphia issues. Partners are Russell W. Schaffer, Carl Necker, Charles A. Schaufler, and Linford B. Cassel, Jr., general partners, and Joseph J. Tunney, limited partner.

The firm of Schaffer & Co. has been dissolved as of May 31.

Formation of Schaffer, Necker & Co. was previously reported in the "Chronicle" of May 24.

Tellier Opens Branch In Jersey City

Tellier & Co., 42 Broadway, New York City, announces the opening of a branch office at 15 Exchange Place, Jersey City, N. J. under the management of E. A. Abele. The new branch will have a direct telephone connection to New York.

From Washington Ahead of the News

By CARLISLE BARGERON



Carlisle Bargeron

The information about the Denver Democratic meeting is that they were cocky as nobody's business, that they feel the "prosperity" which the country is "enjoying" will return them to power regardless of scandals, corruption, high prices and high taxes; and on the insignificant matter of Korea, as they see it, they are confident they can make the Republicans the war party.

On this latter proposition, the reaction among the Washington professionals is that the Democrats, with their Denver speeches, doth protest too much.

I can understand that the "prosperity" issue might stand the Democrats in good stead. We are becoming quite callous, and the indications are that the people are coming to take the drafting of their sons in stride. A lot of them are being maimed or killed in Korea, but not enough apparently to cause any great universal resentment, or to offset the fact that a lot of easy money is being made these days. On the question of high taxes, I hear too often the statement by the man in the street that "if they will let me make the money I'll be glad

to pay the taxes." In spite of the payroll deductions for taxes this fellow is seemingly far from being tax-conscious. His take-home pay is what he considers to be his wages, and that is high.

Foreign policy has not figured in our last three Presidential campaigns. If certain influential Republican forces have their way it won't figure in the Presidential campaign of next year. However, it should.

Let's get this picture: Truman, Marshall and Bradley have been telling the American people that although Truman, overnight, decided to go into Korea without consultation with his military advisers, the Democratic Party is for peace and, in effect, constitutes the peace party in this country as against MacArthur and the Republicans because they want to extend the war. Although this crowd went into Korea they have been very careful about the guns they used or just how and where they fired them and in this way have contained the war.

Now, had they fired the wrong gun at the wrong place, Russia would have moved in, World War III would have been started; the Russians would have quickly swept to the English Channel, they would have rained bombs on Britain and France, and they would have rained them on us.

In a hotel room a few nights ago I read a placard which told me that in the event of atomic attack I should walk calmly outside the room and lie down on the floor in the corridor. Over all the country a lame duck governor of Florida, Millard Caldwell, for government stipend, has been telling the people that we face destruction—at the hands, of course, of Russian atomic bombs.

A few months ago, Prime Minister Attlee of Socialist Britain, came a-running over here to plead that we watch our step in Korea lest we set off the holocaust, and he was followed by President Auriol of France. At the time, we were told by the newspapers, on the strength of stuff being fed to them by Administration propagandists, that Britain and France were so nervous about our aggressiveness that they wondered whether for their own safety they should not deny our global leadership. It was explained by the propagandists that both Britain and France were right under the gun. When Russia started, when Russia was finally provoked, why those two countries would be destroyed before you could say scat.

Cut of this, the Administration evolved the theory that not only did MacArthur and the Republicans want to start World War III, but they wanted to "go it alone." Analyzing this, it must be that if we were to take the wrong turn in Korea, the Russians would destroy Western Europe, and France and Britain, having forsaken our leadership and let us go it alone, would just sit there and permit themselves to be destroyed, out of spite for us, so to speak.

Well, sir, it so happens that about this time, the Persian Nationalists seize the oil development which is owned by the British. In a flash, the British, reacting as they have been long taught to react, forget all about the holocaust which will be caused by offending Russia; they forget all about that propaganda about their being right under the guns and being in the path of immediate destruction once Stalin's ire is aroused; they prepare to strike in Iran and to strike quickly just as they have struck down through history whenever their toes were stepped upon.

We now have to restrain them and there is every evidence that they are impatient at the restraint.

I have stated the propaganda picture which has been given the American people. It should now be obvious to everyone that it is the bunk. It must be manifest that the British, in wanting to land troops in Iran to protect their oil properties, have not the slightest worry about Russia sweeping to the English channel and destroying Western European civilization. It must be manifest that they are not worried about Russia—period. And you can understand their annoyance when they are held in check in regard to Iran by our government on the grounds that for them to act forcefully will make fools of our government. It should be apparent, though, that it is fools or knaves they are.

With Francis I. du Pont • Joins Walter, Woody

(Special to THE FINANCIAL CHRONICLE)

(Special to THE FINANCIAL CHRONICLE)

FT. LAUDERDALE, Fla.—Mrs. Bertha E. Aratus has become associated with A. M. Kidder & Co., staff of Walter, Woody & Heimberger, Dixie Terminal Building.

CINCINNATI, Ohio—John E. Froehlich has been added to the staff of Walter, Woody & Heimberger, Dixie Terminal Building.

Values in Today's Market

By I. KOMANOFF

While urging extreme caution during the current period of market correction, particularly toward groups recently popular, Mr. Komanoff suggests as candidates for new purchases two issues well deflated with good earnings and dividend prospects.

The rise in the Dow-Jones industrial averages during the past year has amazed competent security analysts in the fact that so many good grade and seasoned securities have been virtually bypassed and neglected.

At a time when the averages had risen to their highest level in 20 years, the discriminating security buyer could still find various issues

with low price-earnings ratios, excellent dividend yields, favorable earnings outlook for 1951—yet currently selling at prices much nearer their lows of the last 10 years than nearer their highs.

The question arises therefore: Why this sharp divergence over the past year between the action of the "Dow" and the price of many good grade issues?

The answer, of course, lies in the fact that the averages are weighted so heavily by the inclusion of those issues which have so outperformed the market—namely, the oils and chemicals.

It would seem to follow therefore that in any period of market readjustment or correction—such as the one currently taking place—that new candidates for purchase should be sought not in the vulnerable groups which have enjoyed this large appreciation, but rather in deserving issues which have been overlooked and not exploited marketwise.

After careful searching for such issues, this writer suggests to the careful investor two securities as offering instances of seemingly marked undervaluation.

These issues are:

- (1) Electric Storage Battery—now around 43
- (2) U. S. Pipe & Foundry—now around 38

BOTH issues enjoy an active market on the New York Stock Exchange.

BOTH are well managed and strongly situated companies, being leaders in their respective fields.

BOTH are companies with excellent unbroken dividend records, with that of ESB going back to 1901.

BOTH are selling at only 6-7 times estimated 1951 earnings.

BOTH are companies whose earnings this year, despite heavier taxes, will show good gains over those of last year—yet are selling considerably below their 1946 best and are currently yielding between 7 and 8% based on probable 1951 payments.

Electric Storage Battery is a leading manufacturer of storage batteries, marketing its products principally under the trade names "Exide" and "Willard." A little more than half of sales are to the automotive industry with the replacement market accounting for a major portion. The balance consists mainly of industrial batteries which are sold to the railroads, utilities, mining, aircraft and other important outlets.

Electric Storage Battery has a fine record of profitable operations going back to 1900, with an unbroken dividend record dating back to 1901. Its financial position is and always has been unusually

extra dividend of \$1 at the end of the year in addition to the regular \$3 already declared.

An important factor in evaluating the worth of U. S. Pipe stock is the fact that it owns 272,500 shares of Sloss-Sheffield Steel against its own capitalization of 695,000 shares outstanding. At the present price of \$34 for Sloss, this equals about \$14 per share for each share of U. S. Pipe. If one were to deduct this from the current price of \$38 for U. S. Pipe, it would seem that the investor is paying the equivalent of only \$24 per share for U. S. Pipe which is currently earning at the rate of nearly \$8 per share and paying out a minimum of \$3 per share. U. S. Pipe has sold considerably above its present price of \$38 in each year going back to 1945, with a high of \$60 reached in 1946.

Our Reporter's Report



I. Komanoff

The underwriting fraternity must find itself in pretty good shape as the vacation season gets under way this holiday week. Inquiry among dealers and banking firms indicates that they have done a rather satisfactory job of working off such inventories as remained over from deals put through in recent weeks.

Meanwhile untenable positions in the municipal market, growing out of the Federal Reserve's policy in the Treasury issues since the turn of the year, underwent correction, although in this area the cure was painful for some of those involved.

The municipal market is the last real stronghold of the rugged-individualist in the financial world. And some, according to reports, were not rugged enough to stand the gaff. Banks have done some calling of loans to clean up the situation here and in the process some people have been "cleaned out."

Since the municipal dealers are under neither the Securities and Exchange Commission nor the National Association of Security Dealers, no financial statements

Continued on page 43

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The Changed Credit Policies

By DR. MARCUS NADLER*

Professor of Finance, New York University

Commenting on the agreement of Federal Reserve and Treasury on the Reserve's open market operations, Dr. Nadler hails it as step in right direction. Says new flexible open market policy does not mean an unprotected government bond market, but will be guided primarily by movement of prices and volume of commercial loans, and more reliance on quantitative control to regulate flow of credit and capital. Foresees money rates being stabilized at higher level.

The new agreement between the Federal Reserve authorities and the Treasury constitutes one of the most important developments

in the field of credit control that has occurred since 1937. It removed from the Federal the obligation to act as "an engine of inflation" and has restored to the Reserve authorities some of the initiative in the creation of reserve balances. Although it has caused a great deal of uncertainty in the bond market in general, and in the government bond market in particular, it must be considered as a step in the right direction.

The new open market policy of the Reserve authorities has been generally misunderstood. The general belief is that the prime purpose of the new policy was to bring about an increase in money rates. This was only incidental. The prime purpose of the new open market policy was to make accessibility to Reserve Bank credit more difficult and more risky and to reduce the potential supply of funds available for investment to institutional investors such as insurance companies and savings banks. Prior to the adoption of the new policy banks could create reserve balances by selling government securities to the Federal practically without a loss. Institutional investors and others could also create reserve balances and deposits by selling their long- and medium-term government securities at a moderate premium above par. The result was that many institutional investors looked upon their government securities, short- as well as long-term, as equivalent to cash. They made commitments way beyond their expected income, believing that government securities were for all practical purposes cash items.

So long as the country was not confronted with serious inflationary dangers the old open market policy of the Reserve authorities, whereby long-term government securities were pegged at a fixed price, fitted in more or less with economic conditions. However, the maintenance of such a policy became untenable the moment military expenditures unloosened inflationary forces and threatened the purchasing power of the dollar.

Protected Market

The flexible open market policy of the Reserve authorities does not mean, however, that the government bond market will be unprotected and permitted to fluctuate widely. As in the past, so in the future, the government bond market will continue to be protected by the Reserve authorities. In this respect it is of interest to note that Mr. Martin, the new Chairman of the Board of Governors of the Federal Reserve System, when he took the oath of office on April

*Summary of a talk delivered by Dr. Nadler before the New Jersey Bankers Association, Atlantic City, N. J., May 25, 1951.

2, 1951, had the following to say:

"I am convinced, the more so since the war in Korea began, that the Treasury and the Federal Reserve System must work together as partners to promote the welfare of the government securities market and to regulate the supply of money in accord with the dictates of our national security." This clearly indicates that the Reserve authorities still consider the "welfare" of the government securities market an important part of their functions.

The new open market policy of the Reserve authorities will be guided primarily by the movement of commodity prices and the volume of commercial loans. If the voluntary credit controls work—and it certainly is to be hoped that they do work—it should lead to a reduction in the volume of loans considered as nonessential. It also should have an important bearing on the activities of the insurance companies in their private placement policies and on the activities of the investment banking houses.

One may expect that the Reserve authorities will in the future rely more on qualitative credit control to regulate the flow of credit and of capital. Less reliance will be placed on quantitative credit control because this could interfere not only with the national defense program but also with the output of essential civilian goods.

The Reserve authorities must also do their utmost to make the refunding operations of the Treasury successful. That implies not only the offering by the Treasury of a type of security that will be acceptable to investors but also the preparation of the money market to make it possible for investors and particularly commercial banks to buy the new securities.

Readjustment About Completed

As was to be expected the new open market policy of the Reserve authorities led to a downward readjustment in prices of government bonds and all other high-grade obligations. While the readjustment was taking place the opinion was often expressed that money rates were bound to go much higher as compared with the level which prevailed prior to the enactment of the new credit policy. However, this opinion was not based on an analysis of the money market and particularly on the position of the Treasury. A precipitate decline in the government bond market is impossible because not only could it undermine confidence in government credit but also could set in motion forces which would be very hard to control. Moreover, a sharp decline in prices of government obligations would automatically be accompanied by similar declines in prices of other high-grade bonds, would lead to a sharp increase in the cost of credit, and could do more harm than good. One may, therefore, state that the greatest portion of the readjustment in the money market has already taken place.

However, under the new open market policy prices of government bonds as well as other high-grade obligations will fluctuate more widely than was the case before.

The new credit policies of the

Reserve authorities mean that the low in money rates, at least for the duration of the rearmament program, has already been reached and that money rates will stabilize themselves at a level higher than that which prevailed prior to the new Federal-Treasury agreement. Further, the decrease in availability of Reserve credit has for the first time in many years placed the banks in a sellers' market for bank credit. This in turn means that credit will not be as freely available as before and that screening of loans will be much more careful than was the case in the past.

Inflation Problem Remains

The new credit policy of the Reserve authorities marks a departure from the past and has increased the prestige of the Federal Reserve. The success of the new policy, however, will to a large extent depend upon the cooperation which the monetary authorities will receive from all financial institutions of the country. As is only too well known the problem of inflation, in spite of the present leveling off of commodity prices, is serious. The increased armament expenditures and the enlarged capital outlays by corporations are inflationary forces which must be reckoned with. The prime task of the United States in addition to strengthening of its military might is to keep the economy sound. This can be accomplished only if confidence in the purchasing power of the dollar is maintained. However, it should be fully recognized that moderate credit restrictive measures as are in force at present cannot alone curb these forces of inflation. To be successful it requires great economy on the part of the government and the elimination of all waste and unnecessary expenditures by government in general—Federal, state and local. It means restraint on the part of industry in their expenditures for capital purposes. Only those needed should be undertaken; those not considered essential could be easily postponed. This applies with even greater force to public works and other similar expenditures. It also means great restraint on the part of the people. It goes without saying that an increase in the military expenditures is bound to lead to a decline at least temporarily in the standard of living of the people. This applies to all people and does not exempt those who because of the strength of their unions or their political strength in Washington are in a position to exempt themselves from the broad sacrifices that are being imposed on the people. If government, business, banking, labor and farmers work together then the new credit policies of the Reserve authorities can play an important role in maintaining the soundness of the purchasing power of the dollar.

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Reynolds Place Budget Finance Securities

Budget Finance Plan, Inc., a California corporation, has placed privately \$1,000,000 4½% term debentures of 1961, \$750,000 4½% serial subordinated debentures A, and \$500,000 5% convertible prior preferred stock. Reynolds & Co. made arrangements for the financing.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Graphic Stocks—January issue contains large, clear reproductions of 1,001 charts complete with dividend records for the full year of 1950, showing monthly highs, lows, earnings, capitalizations, volume on virtually every active stock on the New York Stock and Curb Exchanges—single copy \$10.00; yearly (6 revised issues) \$50.00—special offer of three editions of Graphic Stocks, 1924 through 1935; 1936 through 1947 and up-to-date current edition, all for \$25.00—F. W. Stephens, 15 William Street, New York 5, N. Y.

"Information Please!"—Brochure explaining about put-and-call options—Thomas, Haab & Botts, 50 Broadway, New York 4, New York.

Over-the-Counter Index—Booklet showing an up-to-date comparison between the 30 listed industrial stocks used in the Dow-Jones Averages and the 35 over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over an 11-year period—National Quotation Bureau, Inc., 46 Front Street, New York 4, New York.

Railroads—Bulletin—Smith, Barney & Co., 14 Wall St., New York 5, N. Y.

Steel Industry—Analysis—Milner, Ross & Co., 330 Bay Street, Toronto 1, Ont., Canada.

Aerovox Corp.—Analysis—Raymond & Co., 148 State Street, Boston 9, Massachusetts.

American Hair & Felt Co.—Memorandum—Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Ill.

American Natural Gas Co.—Review—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Capital Airlines, Inc.—Special review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Central Vermont Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Cleveland Graphite Bronze Co.—Memorandum—Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y. Also available are memoranda on Joy Manufacturing and Otis Elevator Co.

Consolidated Mining and Smelting Co. of Canada, Ltd.—Bulletin—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y. Also available is a brief report on West Indies Sugar.

Federal Bake Shops, Inc.—Report—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Ferry Cap & Set Screw Co.—Memorandum—Morgan & Co., 634 South Spring Street, Los Angeles 14, Calif.

Gisholt Machine Co.—Analysis—H. M. Byllesby and Co., Inc., 1500 Chestnut Street, Philadelphia 2, Pa.

Lone Star Cement—Analysis—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

Lonsdale Co.—Memorandum—Walston, Hoffman & Goodwin, 35 Wall Street, New York 5, N. Y.

Lynchburg Foundry Co., Inc.—Analysis—Strader, Taylor & Co., Inc., Peoples National Bank Building, Lynchburg, Va.

Missouri Pacific Bonds—Review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

National Bank of Commerce—Marine Bancorporation—Summary—Frank G. LeCocq, Pacific Northwest Co., Exchange Building, Seattle 4, Wash.

National City Bank of Cleveland—Circular—Gottron-Russell & Co., Union Commerce Building, Cleveland 14, Ohio.

Pan American Sulphur Co.—Memorandum—Beer & Co., Gulf States Building, Dallas 1, Tex.

Pennsylvania Railroad Co.—Bulletin—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Pfeiffer Brewing Co.—Report—Gartley & Associates, Inc., 68 William Street, New York 5, N. Y.

Philip Morris & Co.—Memorandum—Herzfeld & Stern, 30 Broad Street, New York 4, N. Y.

Placer Development, Ltd.—Analysis—John R. Lewis, Inc., 1006 Second Avenue, Seattle 4, Wash.

Remington Rand, Inc.—Analysis—Sincere and Co., 231 South La Salle Street, Chicago 4, Ill.

Riverside Cement Company—Card memorandum—Lerner & Co., 10 Post Office Square, Boston 9, Mass. Also available is a memorandum on Gear Grinding Machine Co. and on Seneca Falls Machine Co.

Continued on page 33

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Mutual Funds

By ROBERT R. RICH

INFLATIONARY PRESSURES
will be somewhat greater in 1952 than in 1951, according to a discussion of "The Inflationary Gap" contained in "Perspective," monthly publication of the investment firm of Calvin Bullock.

The nation currently is experiencing "a mild deflationary trend" due, among other things, to overbuying by consumers during last year's spurge of scare purchasing, to the belated effect of credit restrictive measures instituted some months ago, and to production of an unexpectedly large volume of consumer goods, the firm states. As a result "goods have piled up at almost all levels of trade. Business inventories at the end of March were estimated at \$66.1 billion against \$51.5 billion a year earlier."

These factors combined with direct credit controls instituted by the Federal Reserve Bank and restriction of banks' willingness to lend due to recent weakness in the government bond market "will have a substantial effect in preventing the outbreak of the strong inflationary pressure this year which would ordinarily result from the imbalance of current production and incomes," according to the analysis.

"However, by 1952 the story may be different," the review states. It points out that by the end of 1951 consumer inventories probably will be worked down to more reasonable levels; that increased turnover of deposits along with the increased money supply can make available the purchasing power to support much higher price levels; and that "our feeling is that Treasury operations may add considerably to the inflationary pressures later this year and during 1952."

The analysis concludes that, "as we see it now, certain distortions in the economy will tend to bring about inflation. These results form a larger than normal proportion of national production being requisitioned by government while an equal amount of earnings of those engaged in such production will not be requisitioned by taxation. Hence, earnings will probably outstrip the goods produced for consumers, competition for the short supply of goods should develop and prices tend to rise to close the gap."

HENRY J. SIMONSON, JR., President of National Securities & Research Corporation, announced results for the fiscal year ended April 30, 1951. Assets of National Securities Series reached a new high of \$83,080,412 compared to \$62,657,381 a year ago with 14,621,546 shares outstanding owned by 45,310 shareholders against 13,200,620 shares and 42,846 shareholders a year ago.

The 11th Annual Report, just issued, contains the following conclusion as to the outlook for business and investors:

"Although it is our considered opinion that the United States will not be in an all-out war with Russia this year, nevertheless, we expect governmental spending for defense to continue at the unprecedented peacetime record high rate."

"Industrial activity will, in our opinion, be maintained at a level higher than that prevailing last year. In spite of increased corporate taxes, over-all earnings of American corporations for the current year are expected to approximate those of last year which registered an all-time high. Corporate dividends for the first quarter of 1951 have been reported as 15% greater than for

phase, stemming from the heavy accumulation of inventories in the last six months of 1950 all the way from manufacturer to the consumer, and the concurrent tightening of credit conditions, this is likely to prove a temporary lull in a longer term inflationary trend. Efforts to combat this trend, such as higher taxes and price and credit controls, will exert a downward pressure on corporate earnings. On the other hand, it is unlikely that developments in the international sphere will be of such a nature as to cause any material relaxation of our armament program. Defense expenditures superimposed on a high and rising level of national income virtually forbid any prospect of a serious economic slump for the foreseeable future and suggest continuing inflationary pressures."

Holdings of common stocks amounted to 85% of total net assets as of April 30, 1951 compared with about 89% on Oct. 31, 1950.

AFFILIATED FUND reporting for the first six months of its current fiscal year, which began on Nov. 1, 1950, shows net assets on April 30, 1951 of \$123,463,491 compared with \$107,593,348 on Oct. 31, 1950. Net asset value per share was \$4.88 on April 30, 1951 compared with \$4.30 on Oct. 31, 1950. Increase per share for the 12 months ended April 30, 1951, including 25c paid out, was 81c or 19%.

Net profits realized from the sale of securities during the period were \$7,432,504. In addition, there was an increase in unrealized appreciation in the market value of investments of \$7,261,816. The overall market result for the six months was a gain, realized and unrealized, of \$14,694,320. Total unrealized appreciation (excess of market value of securities owned over cost) was \$21,778,158 on April 30, 1951.

FUNDAMENTAL INVESTORS on March 31 showed net assets of \$91,329,495 on that date comparing with \$62,122,232 a year previous and with \$83,698,269 on Dec. 31, 1950. During three months ended March 31 number of shareholders

rose from 24,437 to 26,610—a gain of 8.9%.

THE STOCKHOLDERS of the former Nesbett Fund voted Wednesday, May 23, to authorize the change in management of the fund to the Dreyfus Corporation, an affiliate of Dreyfus & Co., and to change the name to the Dreyfus Fund Incorporated. Registration covering these changes was made effective by the SEC May 24.

Jack J. Dreyfus, Jr., senior partner of Dreyfus & Co., 50 Broadway, New York, N. Y., members of the New York Stock Exchange, was voted President and Director of both the Fund and the Corporation. He announced that the fund will be a diversified investment company of the open-end type and that John G. Nesbett, President and Director of the former Fund has joined Dreyfus & Co., and will serve as Vice-President and Director of the Dreyfus Fund and assist in its management.

Other members of the board of directors of the Dreyfus Fund are: Lester Bachner, senior partner in the law firm of Koenig & Bachner and a member of the board of various corporations; Howard B. Keppel, partner of the Perry Engineering Company and a Director of the fund since its organization as the Nesbett Fund; Harold A. Weissman, President of Miller Drug Inc., and a member of the board of various corporations.

At the time of change in management 55% of the fund's assets are in common stocks, 21% are in preferred stocks and medium grade bonds for income purposes, 24% are in cash, government and other high grade bonds for reserve buying power.

The former Nesbett Fund was organized on Jan. 2, 1947 with Mr. Nesbett as its President. Prior to the organization of the Fund, Mr. Nesbett had, for 18 years, been active in the field of market and security analysis and account supervision. For 10 years he had been associated with Carl M. Loeb, Rhoades & Co.

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calendar year 1950 produced net income of \$6,454,411, as compared with \$1,365,485 for calendar year 1949. Earl E. Crabb, Chairman and President, revealed today in the company's annual report.

Total net assets of Investors, its subsidiary investment certificate companies and its affiliated mutual investment companies were \$820,153,104 as of March 31, 1951, the report stated. As of March 31, 1951, the I. D. S. group of companies had approximately 518,500 certificate holders and shareholders. Investors is one of the nation's principal sources of mortgage funds. The company's total investments in new mortgage loans during 1950 were approximately \$195 million. The report pointed out that opportunities for making construction loans during the mobilization period will be reduced by materials controls and credit restrictions. The company will continue to finance such developments as business centers when controls permit, it was stated.

PRODUCTION CURBS on civilian goods before the end of the summer will obviate any serious inventory deflation in the opinion of a number of major corporations in metal-producing industries. D. Moreau Barringer, Chairman, Delaware Fund, reported today.

The opinions of the various corporations were obtained by Delaware Fund executives recently in an attempt to determine whether withdrawals of metals for defense were likely to cut back production in time to avoid a deflation of inventories of consumer capital goods.

"The consensus of opinion," Mr. Barringer stated, "is that defense orders are building up so fast and being translated into production so fast that civilian goods will, before the end of the summer, experience production curbs that will obviate any serious inventory deflation."

Mr. Barringer added that the general opinion in the metal-producing industry was confirmed by the Fund's other sources in such diverse fields as retailing, transportation and finance.

He pointed out, however, that while neither widespread inventory liquidation nor serious price concessions are anticipated, nevertheless some inventories are being carried on dangerously large bank credit. "In such cases," he continued, "the Federal Reserve's policies may force a certain amount of liquidation, but the effect is expected to be minor."

THE CURRENT accumulation of television set inventories was characterized as a temporary situation and "over the long run our studies indicate that 1950's record sales will be substantially exceeded," according to Chester D. Tripp, President of Television-Electronics Fund. When the normal seasonal rise occurs, in the fall, he added, "There may well be a rather tight situation especially if manufacturers are unable to obtain necessary scarce raw materials."

Net assets of Television-Electronics Fund, Inc. of \$12.97 per share at April 30, the close of its second quarter, established a new high for any quarterly report date. Total net assets were \$6,480,209 at April 30, compared with a three months' earlier total of \$6,125,746 at \$12.74 per share. The number of outstanding shares crossed the 500,000 mark for the first time during the last quarter, Mr. Tripp noted.

AVIATION GROUP Shares has prepared a special report for investors and dealers on the favorable outlook for airline and aircraft earnings in 1951. The report explains why larger profits and dividends are indicated for this year. Copies are obtainable without obligation from Hare's Ltd., 19 Rector Street, New York, N. Y.

INCORPORATED INVESTORS, in its latest letter, analyzes the size of investment needed to pay the "grocery bill" in the periods, 1941-1950. The chart indicates a \$9,000 investment in bonds is needed in 1950, compared with a \$4,000 investment in 1941. In common stocks, on the other hand, only \$1,700 was needed in 1941 and only \$3,000 was needed in 1950.

Security and How to Obtain It

By MORRIS M. TOWNSEND*
Vice-President, Axe-Houghton Funds

Mr. Townsend lists types of security desired by individuals, societies and nations, and points out only real economic security man can enjoy grows out of his own and his family's welfare and future. Sees another world war as greatest menace to America's future, and urges building up economic strength as its preventive. Stresses systematic investment as aid for individual financial security.

Deep in the heart of every individual is the desire for personal security. Self-interest, I need not tell you, is the most powerful motive that animates most people. It is the motive power that makes the wheels of society go around. The desire for security can and does appear in many forms:

The desire for personal financial security is paramount in our thinking. We often hear people say, "I don't want great wealth—I only want enough to continually supply all my needs."

The question of job security has been one of the key points of issue between labor and management. This has given unions grounds for expansion, even to the extent that some of them are becoming "totalitarian" in their outlook.

Ours is an aging population. The advances of medical science have enabled a growing proportion of the population to survive to old age. Today, one-third of the labor force is over 45 years of age. This creates an old age security problem.

The desire for home security is strong and has caused many people to go to extremes. Some have committed suicide when they fail to get such security. When a couple is secure in their love for each other, this tends to bring happiness and security into the home.

The desire for national security has forced many nations to aggressively promote their interests even to the extent of war. The Soviets, I believe, are convinced they cannot have security for the "Mother-land" without having complete control of the world.

Last, but by no means least, is the desire for eternal security.

*An address by Mr. Townsend before the Rotary Club, Southern Pines, N. C., May 18, 1951.



Morris M. Townsend

Thinking individuals realize there must be something beyond this life and are anxious to make secure their position in Eternity. The desire for security is so deeply implanted within each of us that the fact it has not been fully satisfied is the main reason that communism has grown so rapidly in this nation and throughout the world.

This lack of security is due in great part to the fact that too many have turned away from the Prince of Peace. The Russian leaders "outlawed" Christianity. Their recent relenting toward the Orthodox Church was quite patently political, and insincere and probably temporary. As for us, I saw some figures on a Gallup poll of various nations which showed that 34% of Americans do not believe in a life hereafter, the immortality of the soul, but their unbelief does not change the facts. However, their unbelief and lack of church attendance does play directly into the hands of the Communists.

I am not going to preach a sermon on that, but I am far from alone in believing that loss of faith in God and His Divine Authority is responsible, more than anything else, for the plight of the world today. In a Century and a half, the United States reached a position of preeminence among nations, with the greatest productive power and the highest standard of living the world has ever known.

We may ascribe part of this to natural resources, but you must not discount the fact that the main part of it has been due to our spiritual and human resources under freedom and a system of rewards for individual enterprise.

On this continent, for the first time on any continent, was founded a government that belonged to the people, rather than of a people who belonged to the State. Here, for the first time, the individual was given an opportunity to exercise his initiative and his ingenuity for his own advancement. Here, for the first time, the latent powers in mental, physical, and spiritual, were loosed for full accomplishment. Will we allow the Bureaucrats to destroy all of this or the State Department to "sell us down the river"?

I believe in the future of America, of our system of individual enterprise which is the best yet devised by man—the best by test. I do not think our system is obsolete and I will not until someone can show me one that works better, that produces more benefits for more people, in practice, not just in theory. Those who do not like our system of government should move to the country of their choice.

Real Economic Security

The only real economic security man can enjoy in this world grows out of his own chance to do something for himself and his family, to provide for his own and their future and their welfare. Insofar as he depends upon the state for it, he is at the mercy of the state. The state is not a majestic abstraction but a collection of human beings with human weaknesses plus an inevitable appetite for power.

This collectivist idea, you know, is nothing new in the world. We

have had similar slave states since Babylon of the topless towers and Egypt of the pyramids. We Americans are the heirs of a long struggle in the Western world to get away from slave economy and pistol politics.

What we need is to get back to the fundamentals of honesty, industry, thrift, the sanctity of contracts, an honest day's work for a day's pay—and belief in God and His Divine Authority—all those old-fashioned notions that have proved they work. If we stick to our American pattern and work hard at making it work, I have no fear for the future of this country due to any weakness of our own system.

The greatest menace to the future of America—physical, political, and economic—is another world war. I believe we can avert that war if we make this country strong enough, fast enough. The men of the Kremlin would have to be madmen indeed to repeat the mistakes made by the Imperial German Government in 1914, when they thought England would not fight and the United States would not; or of Hitler, Mussolini, Tojo and Company in 1939-41, when they made the same mistake.

Economic Strength Essential

When we speak of making America strong, we mean not only in the military sense, but in the economic, for a strong economy must be behind the good right arm of Uncle Sam or he is crippled. And the soundness of our economy is not something to be left to politicians and financial experts; it is something that must be built from the ground up—and the ground is 155 million individual Americans, 63 million working Americans, 39,750,000 American families. For, only if enough of the people are productive and thrifty can a national economy survive.

Everyone knows that the cost of living, the prices of most goods and some services, are inflated to the danger point—danger of a collapse and severe deflation unless we take steps to prevent it. That is the part of our economic sub-structure that needs strengthening—and urgently. Our money supply is inflated to a point where the dollar has declined in purchasing power to the fourth lowest level since 1775. Measured against a normal year, 1939, the dollar that was then worth 100 cents in buying power is now worth less than 57 cents, and in some goods it will buy far less than that. It is quite likely that the dollar will show a further drop in the years ahead.

For many years the majority of the people of this nation have led a day-to-day, mouth-to-mouth existence without any real security. Smart leaders recognized the longing for financial security and provided better retirement programs. The Savings Bond program of the U. S. Treasury, through the payroll savings plan and the Bond-A-Month Plan has been most effective in creating financial security for a great many people. However, this program is not complete in itself, even though it is a "must" for all of us. The Life Insurance Companies of the nation have made a noble attempt to provide financial security through annuities and monthly settlement plans of policy claims, but again this has failed, to a degree.

The primary reason that the Savings Bond program and that of the Life Insurance Companies has failed is a political one: The continued devaluation of the dollar. To foster selfish political ambitions the administration has brought about a most difficult position for those relying on fixed savings such as Savings Bonds or

Continued on page 35

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MAY 24, 1951

Our Ability to Meet New Oil Demand

By THOMAS W. PHELPS*

Assistant to the Chairman of the Board of Directors of
Socony-Vacuum Oil Company, Inc.

Mr. Phelps warns reduction in percentage depletion allowances would seriously injure the now vitally important development activities of all elements in oil industry, falling most heavily on smaller companies and independent operators. Reflecting on nationalization of Iranian oil, he warns of shortage of our excess producibility available for supplanting it.

What has furrowed my brow in connection with discussing the subject of our ability to meet new demand for oil is that I have not been able to figure out how to limit it to an area with which I am familiar. Like the flower in the crannied wall of which Tennyson wrote—that if he could but know all about it he would know what God and man are—this subject of new demand seems to lead in all directions. To discuss it, for example, without reference to Iran or Soviet Russia would be roughly the equivalent, it seems to me, of that admonition to small boys wanting to go swimming: "Hang your clothes on a hickory limb but don't go near the water."

How Much Sales?

First though, let's try to stick to estimates based on no war, no boom, and continuation of present trends in demand for our various products. On that basis, there is a substantial body of expert opinion that between now and 1960 we are going to sell more oil than ever before. As you might expect, the experts don't stick together when it comes to saying how much. The most optimistic forecast I have heard is that domestic demand will be at least 8 million barrels a day by 1955, and between 9 and 9½ million daily by 1960. Last year demand in this country averaged about 6½ million barrels a day, and this year it looks as though we might hit 7 million barrels daily. Our own people in the Flying Red Horse Companies have tentatively set their sights at 7 million 775 thousand barrels of average daily demand in the United States in 1955. For 1960 their somewhat hesitant guess is 8 million 650 thousand barrels a day.

Any such expansion of our industry will cost billions of dollars. One figure frequently used is \$5,000 for the overall cost of each barrel a day added to our present supply of oil products. That figure, of course, includes all costs from exploration for new crude oil reserves to placing the finished product in the hands of the ultimate consumer.

Very roughly we figure that finding and developing additional crude oil production in the United States now costs somewhere between \$2,300 and \$2,600 per barrel a day of additional output. Except in the Middle East, which is in a class by itself, the figures probably are not appreciably different abroad. That is because those expenses abroad include housing, schools and hospitals that must be provided at oil company expense in such operations.

Cost of Additional Capacity

The cost of additional refining capacity per barrel a day would vary greatly depending on whether

*A talk by Mr. Phelps at the annual meeting of the Empire State Petroleum Association, Buffalo, N. Y., May 21, 1951.



Thomas W. Phelps

it was for regular grade gasolines, or whether it was for lubricating oil and aviation gasoline. The figure for additional ordinary gasoline refining capacity under current conditions probably is about \$1,000 a barrel while the cost of additional capacity to make lubricating oils would run about \$7,500 for each daily barrel increase in capacity.

The cost of additional transportation facilities would vary enormously depending on distances and the type of transportation used, but a figure of about \$500 for each barrel a day of additional capacity in a long pipeline gives an idea of what is involved. You gentlemen know so much more than I do about the cost of marketing facilities that I am not going to make any estimates in that direction.

Obviously, if it costs \$5,000 for each barrel of additional daily oil production in this country, an increase of even as little as one million barrels would cost \$5 billion. The experts have estimated an increase of more than twice that from the 1950 rate to 1960's estimated needs.

Thus far, too, we have not considered the creation of any standby capacity. Some people think we should have a million barrels a day in that category. There goes another \$5 billion.

Where the Money?

Where will the money come from? Well, the oil industry has spent over \$10 billion in the last five years in expanding its capacity. Retained earnings plowed back into the business, borrowings and some sales of stock have supplied the funds. With the possible exception of the standby facilities, which are hardly commercial at all if they are to be truly excess capacity for emergency use only, the further expansion that is foreseen probably can be financed pretty much as it has been in the past — barring major changes in interest rates, security markets and tax laws.

Reduction in the present percentage depletion certainly would seriously and adversely affect the exploratory and development activities of all elements within the oil industry, but naturally would fall most heavily on the smaller companies and independent operators who as wildcatters have discovered a large percentage of the nation's oil resources. Regardless of theoretical and technical objections to percentage depletion, the great argument against reducing or eliminating it now is that to do so would curtail our oil finding efforts at the very time when the industry is being urged by the government to carry out a maximum of exploration as an important part of the country's defense program. If we deduct imports of oil, we have practically no reserve of excess producibility. To make an activity less attractive taxwise at the very moment more of that activity is urgently needed seems to me a hell of a way to run a railroad.

One other development that may have a bearing on the ability of our industry to provide the additional capacity the experts think will be needed is the speed with which the automobile industry builds higher compression engines than any now available, which in turn will require higher octane

gasoline than the industry is now able to make. Those who question whether progress would not be better served by building engines capable of getting more useful energy out of the gasoline now available point out that in estimating what motorists might save by using higher octane gasoline than can now be manufactured we must not overlook the several billion dollars of capital investment that would be required of the oil industry or the added cost and energy losses which would be incurred by refining to the higher quality level. Based on presently known petroleum technology, that energy loss would be high. Another point, of course, is that if 100 octane number gasoline were generally available many of the older cars on the road would be using it unnecessarily.

If, as I have suggested, the foregoing estimates of the future might be drastically changed by turns of events other than those assumed in making the estimates, then shouldn't we consider what those certain turns are, and what are the chances that history may go their way? That little word "if" is one of the most useful and least satisfying in our language, as was illustrated by an American sergeant in England during the last war. One night, for which he had other plans, he was ordered to attend a hands-across-the-sea dinner at a nearby castle, as the representative of his unit. When he reported back to his superior officer he was asked what kind of a time he'd had. "Well, sir," he said, "it was an iffy evening. If the soup had been as warm as the wine, and if the wine had been as old as the chicken, if the duchess had been as pretty as her maid, and if the maid had been as willing as the duchess, it would have been tops."

Necessarily every estimate of the future must be based not only on present facts but on certain assumptions, which is to say, on certain "ifs." Crop estimates, for example, are based on intentions to plant, or on acreage actually planted at the time the estimates are made, and also on the assumption that temperatures and rainfall will be normal. Similarly petroleum demand estimates have to be based not only on such facts as automobile registrations, oil burner installations and existing price relationships between oil and competing fuels, but also on projections of trends of petroleum product uses, how we think general business will be, and what we expect from Russia.

Logically it might seem that we should require each forecaster to give us as many different estimates of future oil demand as there are different assumptions and combinations of assumptions which might affect that demand in a major way. But even if we did have a long list of different estimates of future oil demand based on a wide variety of assumed conditions, we still would have to decide which was the right one. Try as we may to avoid the risk and responsibility of forecasting, we cannot escape acting in accordance with assumptions as to the future, nor can we avoid being judged by the correctness of those actions.

Probably the worst thing we can do from our customers' point of view is to be caught short of having all the oil of whatever kind he wants when and where he wants it, no matter what happens. If we have too much oil in the wrong place at the wrong time, that's our hard luck and the sympathy we get won't be bankable. Still I think everyone of us would prefer almost anything to having to tell a regular customer in the dead of winter that he will have to burn something else because we don't have any more oil to sell him. We do not think that will be necessary this winter if we all national trade last year came

take full advantage of storage, from the Middle East and nearly 60% of those Middle East exports of oil went to Europe. We have little margin of excess producibility on which to draw if we should be called on suddenly to supply western Europe with the oil now coming from Iran. That could affect your businesses, particularly if other countries should follow Iran's lead.

The most basic fact in the world today is the contest of strength between the Soviet Union and the West. No appraisal of the oil industry is complete without reference to that contest. Probably 10 times more oil was used in the Second World War than the first one.

Including the foreign holdings of Britain, France and Holland along with our own, we have something like a ten-to-one advantage over Russia in current oil production. It would not be surprising if the Soviet tried hard to change that ratio in Russia's favor. As J. H. Carmichael pointed out in the New York "Times" last week, Russia would gain doubly by getting any part of the Middle Eastern oil, first because its loss would weaken us and second because its gain would strengthen communism. The chief value of the oil now is its use to bolster the economy of western Europe and to make it unnecessary to send oil from the Western Hemisphere to Europe. But the oil of the Middle East could be used just as advantageously by Russia for the development of China and other parts of the Far East friendly to the Soviet as by the western world in Europe. If Russia is contemplating further aggression — and our country takes that possibility seriously enough to be buying billions of dollars of insurance against it — any marked improvement in her supply of oil would remove one more deterrent, just as did her success in producing an atomic bomb. That possibility brings the Middle East much nearer home, doesn't it?

All the estimates of increases in demand and capital needs to meet them could be knocked into a cocked hat by a real business depression.

Wm. G. Carey Partner In Albert Weck Co.



W. G. Carey

William G. Carey has been admitted to partnership in Albert H. Weck Co., 60 Wall Street, New York City. Mr. Carey is Manager of the firm's over-the-counter trading department.

Wm. P. Scott With Johnson, Keen & Co.

PHILADELPHIA, Pa. — Johnson, Keen & Co., Girard Trust Building, members of the Philadelphia-Baltimore Stock Exchange, announce that William Powell Scott has become associated with them as Manager of the mutual funds department.

Joins King Merritt Co.

ST. CLOUD, Minn. — Paul C. Bartholemey has joined the staff of King Merritt & Co., Inc., 1616 St. Germain Street.

The Steel Industry in A Defense Economy

By WALTER S. TOWER*
President, American Iron and Steel Institute

Mr. Tower reveals growth of steel industry since outbreak of World War II along with current program for further expansion. Warns of probability of extended duration of the Garrison State, with accompanying controls and allocations and their adverse effects on steel industry. Points out concentration on building up military power must not sap nation's basic industrial strength, and asserts no economy is strong enough to survive effects of government fostered inflation.

In the late 1930's, a well known steel man made a speech about the high points of what steel has done since similar conditions were faced a decade ago. Such recollection may throw some light on the question whether the experiences of that period need be repeated.

A popular pastime for steel men, as it has since become, was his appearance in the mantle of Elijah, the prophet, with a prediction that before the end of the twentieth century, some year would see

a hundred million tons of ingots poured from the steel furnaces of this country.

That prediction seemed like a burst of wild optimism about an industry which was still feeling the hurts of a depression, when a year's output had dropped to 15 million tons—an industry which was hearing harsh criticism from government for being over built. Now, as you sit here hardly more than a decade later, our reports show a total production just above a hundred million tons in the past 12 months. Currently ingots are being poured at the rate of more than 107 million tons for the year 1951. And new steel-making capacity is being added on a scale never equalled before, which means that recent records, impressive as they are, will soon look commonplace.

Since the first of this year, 12 successive weeks have seen production top the 2,000,000 ton level, and in March, for the first time the monthly output went beyond 9,000,000 tons. Military requirements during that greatest war in history, did not at any time take the major part of our available steel supply, and it is probably fair to say that civilian needs in that period did not suffer seriously from lack of articles made of steel, although satisfaction of desires for some such articles had to be deferred.

No great war ever has been fought without some sacrifices by the people so engaged. Nor can a great defense mobilization be done speedily without some effects on a previous scale of easy living.

In the five years, 1946 through 1950, when civilian demands were unrestrained and practically insatiable, steel production amounted to 415 million tons of ingots, in spite of numerous strikes and work stoppages. Almost all of that tonnage went into capital goods and consumer durables, like automobiles and household appliances, to create in this country the richest stock of such goods ever in the hands of any people. It is at this moment a reservoir of equipment which has many more years of usefulness. If the need arose, that reservoir could carry this nation through a period of curtailed civilian supply of steel without impairing the basic comforts of living. But it now seems likely that production of consumer durables in 1951 will compare favorably with output in any prior year, except 1950.

After such sustained stimulus by war demands and postwar boom, averaging over the 10 year span an ingot output close to 85 million tons a year, the steel industry faces this second half of the Twentieth Century ready to meet its third great military demand. With productive capacity already well beyond the 100 million mark, actual output of steel in 1951 is evidently destined to verify the sayings of our prophet of yesteryear. As you all know

there is more to come and the pace is swift.

Present Plans of Expansion

Present plans call for enough added steelmaking capacity within the next 18 months to bring the industry total above 118 million tons. Consider what that means. Even if military requirements were to match the highest yearly figure of World War II, which, short of full scale war, seems unlikely, there would be left out of 118 million tons of steel almost enough to equal the annual average for civilian uses during these past five years of unbridled boom.

These facts are significant because so much is being said about the large part of total supply which will be taken by the defense program and the shrinking "availability of steel for the regular economy."

In that connection it would be far better, if the public could be told clearly how much steel is actually going into direct defense, and how much into so-called defense-supporting uses, which is another way of saying into the strengthening of the general economy in a wide variety of industries that are always large consumers of steel.

Right now, for example, the best estimate of direct military use of steel during the third quarter of 1951 is about 700,000 tons of finished rolled products per month. That is less than one-eighth of prospective supply. In other words nearly 90% of a record breaking output will be for uses normally regarded as part of our civilian economy. What has the regular economy lost if so-called programs are set up to assure necessary supplies for any number of major uses of steel, like car building, oil and gas production, agricultural implements, public utilities, and so on?

That figure of 118 millions, just mentioned, does not include any capacity for new ventures which hang precariously on the hopes of Federal funds, projects which have been aptly described as reflecting only the "covetous gleam in some promoter's eye." All the expansion figured into the 118 million tons is planned by established, competent companies, and is widely scattered around the country. It is their response to government urging.

In some quarters there have been questions about the wisdom of expanding the steel industry so much more than ever before in a like period. Others still insist that what is planned is not enough, that the goal should be 130 million tons or even more. If more were really needed I venture to say that existing companies would

make it available. But steel companies should not have to make a choice between unwisely expanding their privately owned plants and seeing government funds create new steelmaking ventures. No one can properly object to private capital going wherever the lure of possible profit may lead. But one can and should object, loudly and long, to tax money being used to create competition against those who pay the taxes.

Expanding steel capacity and increasing output have completely outgrown the once simple matter of building more furnaces and producing more raw materials. Over these recent years many resourceful men in steel companies, large and small, have been looking with questioning eyes at every step in steelmaking, at every aspect of the metallurgy of iron and its alloys. They have learned much. And much that they have learned is reflected in the added tons of steel which your companies are now contributing to protect the future of this country and maintain its bountiful mode of living.

Technological Improvements

This is not the place, nor have I the knowledge, to tell you the full story of what your technical men, operators, engineers and research metallurgists have contributed to the art of steelmaking in these years of conspicuous progress. But let me mention a few items to illustrate the vigor and foresight of this industry; how the theories of yesterday become the everyday practices of tomorrow.

There have been many improvements in the efficiency of existing equipment and in the technology of essential steelmaking processes. Yields have been increased by better preparation of raw materials, by sintering ores, washing coal, sizing coke, by scrap selection. Time has been saved by better physical facilities for handling scrap, hot metal, open hearth slag, and in various steps of processing products. More efficient designs of furnace details, use of oxygen, automatic thermal or electronic controls, highest speed rolling mills—all these and many more have contributed to a steadily improving performance, until one hears reports of open hearth heats within the limits of a single eight-hour shift.

Beyond its obvious effects on output of mills and aggregate steel supply all of this achievement has a second significance. It is a real measure of the merit of private enterprise. It is a product of that incentive which is inherent in individual initiative and reward. It is part of a guarantee of national strength—strength to jus-

tify the recent statement by a prominent steel man that "it is difficult to conceive how any enemy, or group of enemies, could present any real problem to this nation, so far as steel for defense is concerned." With that statement, I know you all will agree.

Accepting the broad principle that the strength of a military effort depends on the strength of the civilian economy on which it is based, the prospect of steel output rising steadily and substantially above 100 million tons yearly means ample steel for powerful military forces, plus a civilian supply not much less than the tonnage so used in any year prior to 1950. The cry of "shortage" sounds strange in a country which has half of the total world steel supply for barely 6% of the world's population, a supply that has created and now supports a scale of living which, by all comparisons, is fantastically high. If everyone could be given at this moment all the steel that he might like to have, the likely results would be glut of supply, dearth of future demand, and unpleasant effects on our whole economy.

A New Period of Regulations And Controls

When you were here a year ago, the outlook for continued high demand was a bit hazy. There was then some feeling that steel companies would be looking for orders before the end of the year. War quickly reversed the outlook. Now, for the second time in a decade, the steel industry is facing a period of regulation, restrictions and controls to align its operations with the dictates of a garrison state. Ten years ago the program was avowedly for a period of all-out war, its duration believed to be relatively short, its objective clear, its outcome beyond reasonable doubt. This time the program is for mobilization and readiness, over a period of uncertain duration, but believed not to be short, unless an inexorable course of events leads rapidly into world-wide fighting.

It would be fruitless to speculate here about the possible effects of all-out war on our economy and the position of the steel industry in that economy. But the likely consequences of having a garrison state, prolonged indefinitely into the future, are within the realm of reasonable appraisal. And it is not too early to consider what that may mean to our national economy, and especially to the position of the steel industry, as the

Continued on page 22

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May 31, 1951

*An address by Mr. Tower at the 59th General Meeting of the American Iron and Steel Institute, New York City, May 24, 1951.

Benjamin Currier With Raymond & Co., Boston

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Benjamin W. Currier and William R. Walsh have become associated with Raymond & Co., 148 State Street. Mr. Currier was formerly Vice-President of Luckhurst & Co., Inc., in charge of their Boston office, with which Mr. Walsh was also connected.

John J. Knox With Courts In New York

John J. Knox has become associated with the New York office of Courts & Co., 30 Broad Street, in the Corporate and Municipal Bond Department. Mr. Knox was formerly with Harris Hall & Co. and L. F. Rothschild & Co.

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Canadian Securities

By WILLIAM J. MCKAY

The development of the Canadian West has been retarded by geographical barriers to a greater extent than that of the Western United States. In addition to the mountain barrier of the Rockies, the southerly thrust of the Laurentian Shield serves as a further impediment to East-West communications. Thus despite its temperate climate, prolific mineral resources, and fertile valleys, the economic progress of the Province of British Columbia and to a lesser extent, the prairie provinces has been necessarily slow. The linking of the Pacific and Atlantic coasts by the Canadian Pacific Railway was the first important step towards the opening up of the Dominion's rich western territories.

British industrial genius and skilled workmanship would find a more congenial atmosphere in the vast economic treasure-house of Western Canada. However in order to bring about a migration from the British Isles on a worthwhile scale the closest Anglo-Canadian cooperation on the governmental level is indispensable. Possibly the best idea yet proposed is the establishment in Canada of British satellite industrial cities.

A constructive example of the great possibilities of Anglo-Canadian industrial collaboration is Canada's new but virile aircraft industry which came into being as a result of the establishment in Canada of the British Hawker-Siddeley Co. Little imagination is required to visualize the results that could be obtained if British firms of world-wide fame in such fields as shipbuilding, steel, machinery, chemicals, textiles, leather, and others were given official encouragement to establish themselves in the manufacturer's paradise of Canada's empty Western Empire. Large-scale industrialization of the Canadian West would also be beneficial to U. S. Canadian trade just as the growth of industry in Eastern Canada was immediately followed by greater trading activity across the border.

Since then the spectacular oil and natural gas discoveries in the prairie provinces have set in motion a steady westward flow of U. S. and domestic capital that serves constantly to expand the economic growth of the Canadian West. The knowledge of the existence of vast mineral and oil resources, together with almost unlimited cheap hydro-electric power, and cheap factory sites, is now provoking the close attention of U. S. and domestic industry. At the present time the huge \$500 million aluminum project of the Aluminum Co. of Canada in northern British Columbia is the most important undertaking. It is envisaged that eventually a new industrial city with a population of 50,000 will be established on tidewater at Kitimat. The Celanese Corporation of America's ambitious scheme for the construction of a \$50 million chemical plant at Edmonton is another indication of the recognition of the industrial promise of Western Canada.

These are but the forerunners in an industrial penetration that will ultimately change the character of the hitherto predominantly agricultural West. Many ambitious plans that until now have been only at the stage of early consideration will follow the lead of these pioneer efforts. For example, industrial interests on both sides of the border have long weighed the possibilities of the establishment of a great steel and shipbuilding industry in the Seattle-Vancouver area. British Columbia iron-ore and coal would play a large part in this project and consideration might also be given to Alberta's vast reserves of coal, oil and natural gas. On the British Columbia-Alberta border there are vast outcrop deposits of highest grade coal that have long lain dormant for want of a convenient market.

But the West's most crying need is a greatly increased population. The Dominion authorities are now giving belated attention to this subject but so far long-range planning of an ambitious character has been lamentably lacking. Negative measures such as the lifting of certain previous restrictions have been adopted but positive action comparable to the

Four Join Staff of First Securities

PHILADELPHIA, Pa.—Donald U. Hildreth, J. E. Kemp, Meiville B. McLean and John S. Niemond have become associated with First Securities Corp., 1520 Locust St., members of the Philadelphia-Baltimore Stock Exchange. All were formerly associated with Euler & Co.

Morgan & Co. Add

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Charles M. Fischer has been added to the staff of Morgan & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange.

William S. Lounsherry

William S. Lounsherry passed away at his home at the age of 85. Prior to his retirement in 1940 he was Cashier and Chief Accountant for Hendrickson & Co., New York City.

Continued from page 5

Observations . . .

From a Champion of Stockholders' Rights

DEAR MR. MAY:

In your recent column on the attitudes of the public stockholder toward his company, you wrote that "liquidation of stock should be based on criteria of value, not as a consequence of sabotage on the part of the management." This apt statement I heartily endorse!

I do not subscribe to the idea voiced by so many custodians of the public interest that if they did not have "faith in the management," they would "sell their stock." Actually such a statement is made to cover up a good deal of personal laziness, the feeling that they can get better entree if they "go along with the management" and some playing of footsie. I am glad to say the public stockholders are beginning to veer away from this idea.

You do not leave your country because you do not like some of the laws or some of the people who administer them—you use your citizenship! Investors are corporate citizens. They should not sell a good stock, with reasonably good management, because they do not like what they may regard as "pension grabs" or stock options, or they think the dividend policy is too niggardly (if they can afford to hold the stock) or too many oldsters are being retained on the Board (some still nod on in the eighties and one company had a gentleman in his nineties). They should use their corporate citizenship and make their money talk for constructive remedies where necessary.

Stockholders Must Function to Protect Capitalism

As stockholders, we should perform to the best of our abilities the duties and function of the stockholders in a capitalistic system in order to preserve our capital, protect our income, and preserve our system. Economic voters like political voters provide a system of balance and check which is fundamental to the preservation of private enterprise now so largely financed by public stockholders. Unless the stockholder uses his votes to make his money talk and as such a balance and check between labor and management "incentives," he will inevitably surrender to government control those businesses which are no longer profitable for him to finance.

With the government demanding heavier excess profits taxes, withholding taxes, double taxation of dividends, it is the stockholder, who has too much "faith" in management to exercise his corporate citizenship, who will be wiped out unless he makes it plain that stockholder incentive must be part of the "me-to-ism." The stockholder may soon be the twin of the taxpayer in the barrel, if he will compare prewar dividends with last war dividends and the tax road ahead.

Very few people know how to appraise good management which is why the American Management Association wrote a book on the subject. What most people mean is that they have faith in American management so long as the company is capable of making profits or its management has been associated with profit making. When Americans generally lose that faith, private enterprise will be dead.

If stockholders sell their stocks because they do not like certain practices of a company instead of using their ownership to change those practices through individual effort and stockholder organization, with many of these practices carried from one company to another by outside directors or copied from one another, where will the stockholder find his Switzerland?

WILMA SOSS,

President, Federation of Women Shareholders
in American Business, Inc.

From an Investment Trust Authority

DEAR MR. MAY:

Your provocative column stimulated by Sewell Avery's remarks at the Montgomery Ward stockholders' meeting should prompt a good deal of careful thinking.

My main concern is with Mr. Avery's "terror" of pensions. A primary responsibility of investment companies today is to bring home to businessmen who are saddled with the problem of pensions the unique opportunities for higher income and capital growth available from sound common stock investment for pension funds.

Managers of pension funds have, through the purchase of investment company shares, provided themselves with the advantages of professional selection of sound common stocks, wide diversification and constant supervision.

ARTHUR WIESENBERGER

New York

And From an Investment Company President

DEAR MR. MAY:

Three cheers for your column concerning stockholders' meetings and contained in the May 3 issue of the "Chronicle." I am currently the President of Central-Illinois Securities Corporation, which is a relatively small investment company, and have been associated with other investment companies since 1928 and know first hand of the many weaknesses existent in connection with annual stockholders' meetings. As you no doubt are aware, your article, if anything, understates the case.

I will not attempt a long letter of my viewpoints at this time but I think it cannot be contradicted that the great preponderant part of investment company management has been, and is missing a wonderful opportunity to do constructive work for all stockholders and the capitalistic system itself.

C. A. JOHNSON,
President, Central-Illinois Securities Co.

New York City

Continued from page 3

If Peace Breaks Out

does not want us to endanger the Communist regime in China.

Despite his admitted ignorance of the Soviet's intention, and without any data to substantiate his own stand, Marshall insists that their intervention "is a very real possibility." But if Russia intervenes in the Far East, she would have to concentrate in that region, some 7,000 miles from Moscow, a major part of her air power, exposing the homeland to devastating air attacks. Is it not elementary strategy that the enemy has to be hit where his main forces are—the Americans in America? And is it not elementary logic that Russia would attack—would have attacked some time ago—if she were in a position to do so, without waiting for fresh "reasons"? What on earth justifies the Administration spokesmen's apparent belief that Asia is more important to her than is Europe?

They try to make it appear as though the MacArthur program would mean an "all-out" attack with the intent to drive the Communists out of China. Nothing of the sort is contemplated. What is meant is an all-out pressure on China to get out of Korea. Is that enough to induce an industrially unprepared Russia to risk an atomic world war—which evidently she is trying hard to avoid? And if she wants war, would it not be her first move to overrun Western Europe and to stop its rearmament rather than to embroil herself at the remotest and least vital outpost?

War of Attrition

Anyhow, the war of attrition in Korea continues. Why should the Chinese give in while they are being assured on highest Washington authority of practical immunity? Nothing could encourage them, and their Russian sponsors, more than the dismissal of MacArthur and the testimonies of Marshall et al. To assume—as the Jap general staff did once, and ours does now—that China could be "bled white" by suffering even a million (?) casualties a year is naive, indeed. Her net annual population growth is in the range of 5 to 8 millions, and her leaders are not of the sentimental-humanitarian variety.

Logic seems on MacArthur's side. He is asking, not for an extension of the war into China, as his opponents charge, but for forcing the Chinese to relax on Korea. Most certainly, a very strong sentiment of a large segment of our people supports this idea. It is sick and tired of a leadership that first built up Russia's dominance over Central Europe and China; then sold us the ERP multi-billion dollar program as "an alternative to armaments"; next, it jumped headlong into armaments and the Korean venture, knowing that Russia stood behind it; and turns appeaser now when its bluff is called, claiming that the war is in the wrong place, at the wrong time, against the wrong enemy.

In Congress, the working alliance between Republicans and Southern Democrats may be slow in evolving. But if the inconclusive bleeding-letting continues, public opinion may erupt and upset the neatly concocted time-tables of the State and War Departments. The mere threat of sanctions is likely to force the Reds to evacuate Korea.

Should peace break out in the Far East, we might be faced with the worst economic "crisis" since the 1930's. Even if armaments continue—as they undoubtedly would—the reaction might be instantaneous.

The fear of such development brings the business community

into a paradoxical situation. Overwhelmingly, it supports MacArthur. But an early victory of the General in the Great Debate that would reduce the Korean fighting to a trickle (as Mao's present preoccupation reduces the fighting in Indo-China) has "frightening" aspects businesswise. The fear of a major war would recede; so would at first the prospect of an increased pace of armaments. The Europeans, to be sure, would be quick to resist any further temptation to sacrifice an iota of their Welfareism for the benefit of preparedness. The least one might expect on the domestic scene is a more apathetic attitude toward official war-danger-forecasts. Raw material speculation could not help but turn bearish; private orders and commitments are likely to be curtailed, as consumer buying would give way to a wait-and-see attitude.

True, the mounting trend of taxes might be checked, and the Administration's chances to tighten controls would be impaired, too. (Price ceilings on "soft markets" make little sense.) But all that would offer scant compensation for the losses involved.

A Buying Spree Let-Down

In other words, what we would have to expect is a serious sharpening of the "reaction" we have been witnessing since March. This is a let-down of a buying spree that had been induced by false expectations, or rather, by false timing, thanks to official scare-warnings. Most significant is the fact that we were led to expect an early deficit; actually, fiscal 1951 will end in the black to the tune of about \$3.5 billion. The prime reason is that while the boom has boosted Federal revenues, military spending so far is running only some \$6 billion over the pre-Korean annual rate—a fact to be borne in mind: it shows that the government is not as worried about impending war with Russia as it proclaims to be.

Federal expenditures lag \$20 billion or so behind what had been anticipated. Business and consumers have been building up inventories and incurring commitments at rising prices and under false, or at least premature, assumptions. Under such circumstances, consumer resistance had to develop against the speculative tide in raw material and other prices. Relenting on official stockpiling (tin, rubber, wool) is one of the proverbial last straws; credit controls help, too. The threat of increasingly tightened allocations is perhaps the most important single factor.

The result is to be described as a stoppage in the inflation process—that may be actually reversed if China would give way. Consumer buying of durables and semi-durables might then fall precipitously in the expectation of lower prices, with severe damage to merchandising firms, especially. The repercussions in the building trade and on the stock market are likely to be accentuated, to say nothing of inventory speculators.

But on the whole, the reaction could not last longer than a few weeks or months. We still are and will stay in a preparedness economy on a world-wide scale. On that point, there is no quarrel between the Joint Chiefs and MacArthur. Raising Federal expenditures in the coming fiscal year to \$70 billion or well above; expanding industrial plant and equipment to the tune of \$24 billion annually; maintaining farm prices; filling up military stockpiles; fostering higher wages; bringing more nations into the armament whirlpool at an in-

creasing tempo; trying to combat ideological Communism by financial Trumanism—with or without Korea, it all adds up to resurgent inflation. The great cleaning-up—the deflation of the price and wage structure so as to eliminate the imperative need for ever-fresh waves of monetary expansion—is not imminent as yet.

New Jersey Bond Club Slate of Officers



Harry D. Miller Edward Hinckley



J. William Roos

The following slate has been presented for officers of the Bond Club of New Jersey, to be voted on at the annual election June 14 at the Down Town Club, Newark:

President: Harry D. Miller, Nutgent & Igoe, East Orange.

Vice-President: Fred J. Brown, H. L. Allen & Co.

Secretary: Edward S. Hinckley, Adams & Hinckley, Newark.

Treasurer: J. William Roos, MacBride, Miller & Co.

Governors: C. Wallace Smith, Smith, Barney & Co.; James S. Johnston, Bramhall, Barbour & Co.; and W. K. Van Hise, Parker & Weissenborn (for three-year terms); and Carl A. Preim, R. W. Pressprich & Co., to serve an unexpired term.

Robt. Millonzi to Be Member of S. E. C.

WASHINGTON, D. C.—President Truman on May 22 nominated Robert I. Millonzi as a member of the Securities and Exchange Commission for a term to expire June 5, 1952, succeeding Edward T. McCormick who resigned his post on March 31 to become President of the New York Curb Exchange.

Mr. Millonzi, an attorney of Buffalo, N. Y., received his degree at Buffalo University in 1935 and later acted as assistant counsel to the New York State Department of Agriculture and Markets.

Seligman, Lubetkin Partner

Helen L. Friedman on June 1 will become a limited partner in Seligman, Lubetkin & Co., 30 Pine Street, New York City, members of the New York Stock Exchange.

With State Bond & Mtg.

(Special to THE FINANCIAL CHRONICLE)

NEW ULM, Minn.—Albin A. Olszewski is with State Bond & Mortgage Co., 26½ North Minnesota Street.

British Inflation Fears

By PAUL EINZIG

Commenting on British attitude toward inflationary trends, Dr. Einzig discusses problem of individual hedging as means of escaping losses from currency depreciation. Points out difficulties involved, and concludes it might be expedient for holders of industrial equities to limit the extent of hedging and face, in preference, some inflationary losses.

LONDON, Eng.—The British public is becoming increasingly conscious of the depreciation of the purchasing power of the currency. Until recently the increase in the cost of living was looked upon as something quite temporary. The persistence of the upward trend resulted in a change in this respect. Most people are now inclined to envisage a prolonged and substantial rise in the price level. Nobody expects seriously a runaway inflation such as was experienced in various continental countries. "It can't happen here" is the substance of British opinion on the subject. At the same time the possibility of an increase of prices by some hundreds of per cent is not ruled out as altogether impossible. The contemplation of its bare possibility confronts many people with a dilemma whether or not to hedge against such inflation.

The decision is not simple. There is in the first place the ethical argument against it. Anybody hedging against inflation contributes, however slightly, to the accentuation of inflation. There is a conflict of loyalties in the minds of heads of families who feel that they ought to safeguard the interests of those depending on them by hedging against inflation, but who are aware that in doing so they would be acting to the detriment of the public interest. Those who are trying to escape the inflation risk can only do so provided that the majority of their fellow-citizens remain loyal; for if everybody tried to hedge the result would be an immediate sharp rise in prices.

Even those who have overcome any moral objections against hedging have to face some awkward problems. In the first place, have they not hesitated too long? The possibility that the inflationary peak of prices is within sight must be borne in mind. The wholesale prices of some raw materials have already dropped sharply. In the circumstances the acquisition of goods at the present prices entails a certain amount of speculative risk. Nor is this all. Apart altogether from the possibility of a turn of the trend, the question is, have present prices not discounted already a substantial future inflation? If so those who get in at the present price level would pay an insurance premium of something like a 100% in order to be safeguarded against inflation.

Moreover inflation is by no means the only risk which has to be borne in mind. There is the war risk. It is true, during the second World War the British Government undertook to pay compensation to those who suffered material damage through enemy action. This does not necessarily mean that the same would be done in the next World War. Possibly the extent of damage would be so large that its repair would be entirely beyond any government's resources or credit. The whole of it, or a very large part of it, would then have to be borne by the victims. Once such a possibility is envisaged the acquisition of real property or of goods of any sort cannot be considered as a safe hedge. There is further the ever-present risk of government intervention. If somebody acquires sound industrial equities he is exposed to depreciation as a result of government decisions resulting in a curtailment of the output.

Holders of industrial equities are also exposed to increases of taxation or price control measures which would reduce profits to a level at which they are not sufficient to ensure the replacement of the stocks sold or used up. The change in the political balance of power in a leftward direction would greatly aggravate such risk. Even though holders of liquid funds would not be immune from it, on the whole the Socialistic measures are liable to hit invested capital harder.

If we were confronted with a runaway inflation the decision whether to hedge would not be difficult, nor would the choice of the hedge present unduly difficult problems. If the price level advanced by thousands of per cent then it would not matter very much if the value of the goods or securities chosen were to rise some hundreds of per cent less than the average. But so long as the prospects are that inflation remains relatively moderate the choice of the hedge is very difficult.

Even the advance purchase of consumer goods is not without disadvantages. Anybody who orders a number of suits or overcoats runs the risk of a change in the fashion—or in his figure. Unless the goods chosen are absolutely durable there is a risk of wastage and deterioration.

Nevertheless, the chances are that most of those who can afford it will hedge to some extent, and that many of those who can't afford it will try to borrow in order to be able to hedge. The latter could be prevented to a large degree by means of quantitative or qualitative credit control. On the other hand, the government is entirely powerless to prevent hedging by those who are in a position to pay, unless drastic control measures are applied. Any anti-inflationary measure depends for its success on the extent to which the public is prepared to abstain from hedging. In view of the risk involved in every form of hedging it may appear expedient to hedge against that risk by limiting the extent of hedging and face, in preference, some inflationary risk.



Dr. Paul Einzig

T. J. Herbert V.-P. Of Mutual Fund Cos.

Election of T. J. Herbert as Vice-President of Diversified Funds, Inc., and Manhattan Bond Fund, Inc., mutual investment companies, was announced by Hugh W. Long, President.

Mr. Herbert is well known in banking and investment circles throughout the country. Prior to assuming his position with the two mutual funds, he was Vice-President of the American National Bank & Trust Company of Chicago where he spent seven years in trust investment research and management. For the 15 years preceding that time, Mr. Herbert was associated with City Bank Farmers Trust Company of New York.

In recent years Mr. Herbert has been Chairman of the Trust Investment Committee of the Illinois Bankers Association and since 1943 a member of the investment faculty of the Graduate School of Banking conducted jointly by the American Bankers Association and Rutgers University. He has written and lectured extensively on investment subjects and is the author of the forthcoming textbook, "Investments," to be published by the American Institute of Banking.



T. J. Herbert

Charles Kauffman Now With Rambo, Close

PHILADELPHIA, Pa.—Charles L. Kauffman has become associated with Rambo, Close & Kerner, Inc., 1518 Locust Street. Mr. Kauffman was formerly Vice-President of Euler & Co.

Frank D. Newman Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—Raymond L. Pearson has become affiliated with Frank D. Newman & Co., Ingraham Building.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

SCOTTSBLUFF, Neb.—Norton R. Long is with Waddell & Reed, Inc. of Kansas City, Mo.

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Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The Treasury in announcing a 9½-month, 1½% issue for the called 2½s and the July certificates kept to the short-term end of the list in taking care of the refunding. This was expected. The 1½% rate, however, was a bit more than the market had been looking for, and it is evident the monetary authorities want the refunding to be a success. There can be no chance-taking with this operation, because the favorable effects of the credit limiting could be undone if the refunding did not go over in a big way. Also the fact that the obligation being offered in exchange for the mid-year maturities, will come due in the not too distant future, may give the Treasury an opportunity to refinance them at a more favorable rate at that time.

Holders of the 2½s and the July certificates, according to opinions expressed by followers of the money markets, are well satisfied with the 1½s and exchanges into the new obligation should be very satisfactory. It seems as though the first hurdle in taking care of called and matured issues has been well taken.

Market Acting Well

The government market has been showing modest improvement from the lows of the year with all sections of the list giving evidence of the belief that for the immediate future at least the worst of the storm is over. Volume and activity is still on the restricted side, but there have been more buyers around than had been the case not so long ago. These buyers are aside from the Central Banks, which have also been more aggressive and somewhat less discriminating in their acquisition of Treasuries, especially the restricted obligations. Sellers have not been appearing as frequently or with as large amounts as was the case a short time ago. However, it is not believed this signals any immediate change in the liquidation policies of these institutions because according to reports there are still fairly sizable amounts of governments that must be sold in order to get funds for other commitments that have already been made. It may be the monetary demands of these non-government commitments are not so pressing at this time, and the owners of salable Treasuries are hoping to get somewhat better prices by holding these obligations off the market for awhile.

What is the reason for the signs of stabilization that are being noted in the government market? Since there has not been enough of the climactic type of selling, according to experts, to say that the market has been sold out, or oversold, what is the cause of the moderate improvement in quotations? Some attribute the betterment, to the action of the monetary authorities in aiding the market during the June and July operations, with an eye toward those that will come later on. In order for the Treasury to carry out a successful refunding, securities must be taken by others than the Central Banks. This, it is believed, however, will mean a certain amount of protective work by Federal, but still not enough to undo to any important extent the credit limiting which the Central Banks have been so anxious and concerned about carrying out. Stabilization in the Treasury market is more vital at the moment in the near-term end of the list because of the refundings, yet there must be something done to keep the more distant maturities in line, because quotations cannot be allowed to slip to levels where it is profitable to let out other governments in order to purchase the longer-term marketables.

Short-Term Issues in Demand

The bank issues, the shorts, the intermediates and the longs, have had, according to advices, a somewhat better tone than the market as a whole. It seems as though the near-term obligations, while being sought after by corporations other than commercial banks, are still the issues which the deposit banks are willing and able to acquire in rather sizable volume. The liquidity preference idea is keeping the short-term end of the list in tip-top shape. The intermediate-term issues, and this goes for the partials as well as the taxables, have been finding a few more venturesome souls that have been taking on these securities. While only small amounts of these obligations have changed hands, more could be used, because the sell side of these securities has been rather thin. As for the longer-term eligibles, it appears as though the partials have a bit the better of the buying that has been going on in these securities. The deposit institutions are still very tax-conscious and while this has brought buying into State and municipal obligations, there is plenty of demand for the longest tax-sheltered bonds paced by the 2½s due 1960/65. The 2½s due 9/15/67-72 are going away in not too large amounts and it seems as though this trend will continue. While the buying has been cautious, it is evident that another type of buyer has made an appearance in the market for this issue. Initially, it was those that sold the bank 2½s out at higher prices; now it is reported that the "averaging buyer" is taking on modest amounts of them, in order to get a better overall cost of the entire lot of their holdings. The small banks continue to be the dominant operators in the longest eligible obligation.

Pension funds, it is reported, have been buyers of several maturities of the taps, including the 2½s due 1959/62. Volume, nonetheless, has not been too large in these purchases, but on the increase from what it has been. Swaps and switches are still being made in the eligibles, with the nearer-eligible ones again in good standing. This has brought a bit more activity into the 2½s, the 1962/37s and the 1963/68s.

According to reports, a rather sizable block of the December 1967/72s were worked off (without help from Federal) by a couple of dealers last week in not too much time. This seems to be indicative of a betterment in confidence among buyers.

Two With Dayton-Gernon

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, Minn.—John C. Grams and Jack L. Niemaber are now associated with Dayton & Gernon, Pioneer Building.

Joins Central Republic

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Wayne A. Tully has become affiliated with Central Republic Company, Rand Tower.

N. Y. State Bankers Association Objects to Interest and Dividend Withholding Tax

In letter to New York members of Congress, Association's Executive Committee, through Albert L. Muench, Secretary, says proposal of House Ways and Means Committee would impose hardship and expense on majority of stockholders and bank depositors, and endanger savings bond program.

The Treasury's proposal to levy salaries has led the workers of the a 20% withholding tax on dividends and interest payments, find in their pay envelopes as already tentatively voted by the House Ways and Means Committee, has brought forth severe criticism from the Executive Committee of the New York State Bankers Association. In a letter, dated May 16, sent to New York members of the Congress by Albert L. Muench, Secretary of the Association, it is pointed out the proposal would impose hardship and losses on bank depositors as well as stock and bondholders.



The text of Mr. Muench's letter follows:

"The House Ways and Means Committee has tentatively voted a proposal by the United States Treasury Department to levy a withholding tax on dividends and interest.

"The New York State Bankers Association represents 98% of all commercial banks in the State. After serious consideration of what the imposition of such a tax would mean to the banks, the depositors, and the nation, it hereby registers its opposition to such a tax and calls upon you for your support to defeat this proposal. This matter is not being opposed for selfish reasons but for the reasons listed below:

"(1) A vast majority of commercial bank depositors, such as widows with small income, dependent children and elderly people who are now exempt from tax liability would be deprived of the funds withheld until a refund could be obtained. This would impose a dual hardship, for in addition to being deprived of this needed income their refund might go by default because of their lack of knowledge of the manner in which to recover these taxes.

"Likewise, the many charitable, religious and educational institutions which are stockholders, bondholders and depositors, and who are otherwise not liable for income tax, would have their already reduced income diminished by this withholding tax. In addition to the hardship imposed by the reduction, an additional burden of expenses would be entailed in obtaining a refund.

"(2) Savings bond holders, many of whom are not subject to income taxes, would be penalized by the imposition of a 20% tax for which they are not liable. Faced with a loss of this income for a period of from three months to over a year, and the necessity of initiating wholly unfamiliar refund procedure would tend to discourage participation in the regular savings bond purchase program. Resistance is already being met in the sale of these bonds.

"Any deterrent to the sale of these securities to individuals and trustees and to the depositing of excess funds in savings accounts represents a very real danger to our economy.

"(3) Equally important will be the psychological effect of a 20% withholding tax on the owners of savings accounts. Just as the withholding tax on wages and

"That would be not only unfortunate but dangerous, particularly in the case of commercial banks which, unable to attract additional capital, must rely on retained earnings to build up their capital funds for the protection of their depositors.

"(4) The necessity for a withholding provision, such as the one proposed, is questionable since the present law requires that all payments of interest, rents, etc., in excess of \$600 and all dividend payments in excess of \$100, together with information as to the payees, be reported on forms 1096 and 1099.

"The additional bookkeeping burden both on the payors, i.e., banks, corporations, or individuals, and the government in order to obtain information which for the most part is already available adds strength to the argument that the proposal is unwarranted.

"Furthermore, aside from the tremendous cost to the banks and others in performing this proposed withholding function, the cost to the Internal Revenue Department would be enormous because of the millions of savings accounts that would have to be considered both from a refund and collection basis."

Anshel Co. Formed

Anshel Goldberg is engaging in a securities business under the name of Anshel Co. from offices at 60 Broad Street, New York City.

Creighton & Fox, Inc.

FLUSHING, N. Y.—J. W. Creighton, Jr. has formed Creighton and Fox, Inc. with offices at 164-01 Northern Boulevard to engage in a securities business.

E. J. Dotson Opens

LAS VEGAS, Nev.—Edwin J. Dotson has opened offices in the Boggs Building to engage in a securities business.

Joins Harris, Upahm

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Robert L. Lindstrom has become associated with Harris, Upahm & Co., 523 West Sixth Street. He was formerly with Dempsey-Tegeler & Co. and Marache Sims & Co.

With Paine, Webber Co.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif.—John T. Berdan has become affiliated with Paine, Webber, Jackson & Curtis, 50 North Garfield Avenue. He was formerly with Merrill Lynch, Pierce, Fenner & Beane.

R. B. Littlefield

Raymond B. Littlefield, head of Littlefield & Co., Providence, R. I., passed away May 25 at the age of 56.

Continued from page 4

The Business Outlook

and foolishly seeks size at the expense of financial strength. In an inflationary period, the necessarily greater investment to carry the same gallons of inventory places a severe enough strain on owned capital in most enterprises, when to this increased strain is added the financial burden of expansion in territory and facilities, the risk increases geometrically. Remember, it is over-expansion which causes all booms to collapse; and they all collapse sooner or later—and always sooner than expected! The time to expand is when bargains are available because of such collapses. Wait and pick up the fellow who over-expanded!

In all sincerity, may I say, there is no sadder sight than that of a businessman who works so hard and spreads out so thin, he "breaks his own back"!

The current tightening of credit because of higher interest rates and increasing credit risk, plus the credit restriction programs now under way, make it advisable for you to get your financial house in order.

There is another extremely important reason for you to guard your financial strength. You are in a growing, dynamic industry which is vital to the American way of life. It is an industry which, fortunately for you, as well as the public, is intensely competitive. It is that competition which has caused your industry to grow and continually expand its usefulness in all sections and at all levels of the economy. Financial strength to continue that keen competition is imperative if this industry is to continue its unparalleled growth. If the day ever comes that you have to turn to the government for assistance, or to regulate your prices and competitive practices, or otherwise to interfere with the present free market, that day will mark the end of the fantastic growth of the industry. I say this because it is so inviting and so easy to accept the government's embrace; so impossible to escape its clutch! And, the deadening effect of bureaucracy is well known!

Demand and Supply in the Months Ahead

Despite credit restrictions, demand in the months ahead will be at unprecedented levels as these government orders which are being placed at the rate of \$5 billion a month begin to turn into payrolls and demand for raw materials. If the American people had not put on two sorry exhibitions of panicky "scare" buying since Korea day, I would say that we could meet this increased demand without too much of a strain on prices. This is said because present plans contemplate the production of more than 5 million passenger cars, 5 million refrigerators, 5 million television sets, 4 million cooking stoves, 3 million washing machines and 7 million radios in 1951. From an economic standpoint, despite the dire threats emanating from Washington of shortages and squeezes, supply will be more than adequate by historical standards; and possibly, although not probably, more than adequate by present standards!

The fellows who bet on shortages in textiles and several other lines have already had ample occasion to regret their lack of faith in American productivity! This demonstration of the danger of speculating in inventories again dramatizes the importance of

keeping inventories on an operating rather than a speculating basis.

Conclusions

In conclusion, don't be misled by the current temporary weakening of prices in many lines. On the contrary, we face more and more controls if prices are to be kept in line next fall, when the real pressure will materialize. Currently, businessmen are feeling the pinch of working capital difficulties before their customers feel the pinch of shortages.

In the months ahead, the great increase in government spending will put the economy to a severe inflationary test. Nonetheless, if inflation gets out of control, it will be largely because of failure at home. If the man in the street,

and his wife, continue to buy as emotionally as they have a large part of the time since last June, we can have a price inflation that will hurt us for years to come.

The growing expansion of production facilities and the current weakness of prices, however, warrant the belief that our people will have more sense than to stage a runaway inflation in this great land of plenty. The good sense of the American people has saved us many times in the past; I am sure it is not too much to hope that it will save us again.

D. J. Pickrell Opens

SAN FRANCISCO, Calif.—Daniel J. Pickrell is engaging in a securities business from offices at 465 California Street.

Girl Softball Champs To Play at Field Day

A baseball game between two championship girls softball teams will be the principal sports event for spectators at the Bond Club Field Day on June 8, C. Russell Lea, Chairman of the Field Day Baseball Committee, announced.

The Raybestos Brakettes and the Linden Arians, both champions of their respective leagues, will renew their rivalry which was a feature of the bond men's outing at the Sleepy Hollow Country Club in 1950. Last year the Arians won in a sizzling 1-0 game

at the Field Day but later lost to

the Brakettes in the national championship.

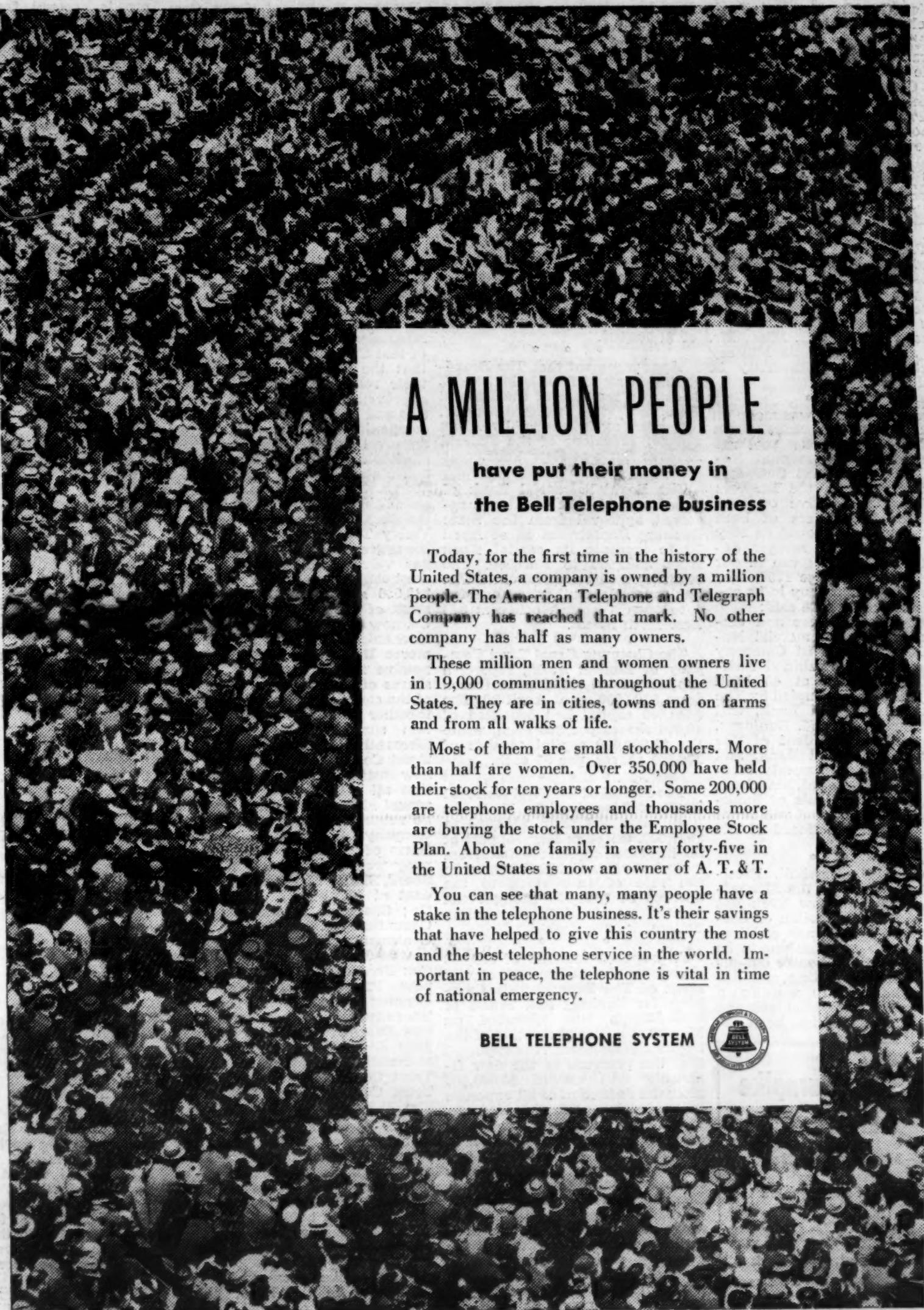
George Dickstein, chief official of the U. S. Amateur Baseball Association, will umpire the game.

Leasehold Dealers Inc.

Leasehold Dealers, Inc. has been formed with offices at 44 Wall Street, New York City. Principals are P. Peterson, President; F. Wilson, Vice-President and G. Ames, Secretary-Treasurer.

L. W. Wells, Jr. Co.

TERRELL, Tex.—L. W. Wells, Jr. is engaging in the securities business from offices at 201 East Moore Avenue, under the name of L. W. Wells, Jr. Co.



A MILLION PEOPLE

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Today, for the first time in the history of the United States, a company is owned by a million people. The American Telephone and Telegraph Company has reached that mark. No other company has half as many owners.

These million men and women owners live in 19,000 communities throughout the United States. They are in cities, towns and on farms and from all walks of life.

Most of them are small stockholders. More than half are women. Over 350,000 have held their stock for ten years or longer. Some 200,000 are telephone employees and thousands more are buying the stock under the Employee Stock Plan. About one family in every forty-five in the United States is now an owner of A. T. & T.

You can see that many, many people have a stake in the telephone business. It's their savings that have helped to give this country the most and the best telephone service in the world. Important in peace, the telephone is vital in time of national emergency.

BELL TELEPHONE SYSTEM

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Ralph W. Dey, an Assistant Vice-President of the National City Bank of New York was elected Chairman of Group VII, New York State Bankers Association for the ensuing year at the annual meeting of the Group on May 23 at the Garden City Hotel, Garden City, N. Y. Ernest L. Dane, Vice-President of the East Rockaway (N. Y.) National Bank & Trust Company, was elected Vice-Chairman, and Edward H. Dawson, Vice-President of the Jamaica (N. Y.) National Bank, was elected Secretary-Treasurer.

Horace C. Flanigan, Chairman of the Board of Manufacturers Trust Company of New York announces that Charles H. Jones, Vice-President has been elected a member of the General Administrative Board of the bank. Mr. Jones has been with Manufacturers Trust Company since 1932 when The Chatham Phenix National Bank and Trust Company was merged with Manufacturers Trust. He was made an Assistant Vice-President at that time, and was promoted to Vice-President in 1936. Last year, in addition to his regular duties, Mr. Jones was designated as senior officer in the bank's Investment Department.

A native of Macon, Miss., Mr. Jones attended Virginia Military Institute and the University of Virginia.

An announcement was made on May 28 by the Bankers Trust Company of New York that the merger of the Commercial National Bank and Trust Company of New York with the Bankers Trust became effective on that day. The stockholders of both trust companies approved on May 23 the plans for the merger, details of which were given in our issue of April 26, page 1766. The Bankers Trust Company in its announcement of May 28 said:

"The former officers and employees of The Commercial National Bank and Trust Company have joined the combined institution. The office at 46 Wall Street, previously occupied by The Commercial National Bank, will be continued. John M. Budinger, who served as President of The Commercial National Bank, and William T. Taylor, formerly Vice-Chairman of the Board, have been elected Vice-Presidents of Bankers Trust Company and will serve as members of the Board of Directors."

Lawrence C. Marshall, President of the Bank of the Manhattan Company, of New York has announced the promotion of Lester F. Grieb to the rank of Vice-President. He will continue to be associated with the bank's out-of-town division, handling and developing business in western Pennsylvania, Ohio, Michigan and Indiana. Mr. Grieb has been as-

sociated with the Bank for the past twenty years except for three and one-half years service in the U. S. Navy during World War II, from which he was discharged with the rank of Lieutenant Commander. He is a graduate of The Wharton School of Finance, University of Pennsylvania and the Brooklyn Law School, and is a member of the Bar of New York State.

Guaranty Trust Company of New York has announced the appointment of William S. Clough, Jr., and Lawrence Hoguet as Assistant Secretaries. Both are associated with the foreign department at the bank's main office.

The newly enlarged capital of \$13,234,375 of the Public National Bank and Trust Company of New York, increased from \$10,587,500, by the sale of new stock to the amount of \$2,646,875, became effective May 11. Details of the plans to enlarge the capital appeared in our issue of April 26, page 1766.

Effective May 11 The Grace National Bank of New York increased its capital from \$3,000,000 to \$4,000,000 by a stock dividend of \$1,000,000.

Announcement that The Broadalbin Bank of Broadalbin, N. Y., became a member of the Federal Reserve System effective May 17, has been made known by Allan Sproul, President of the Federal Reserve Bank of New York.

The Royal Industrial Bank of New York, at 1134 Broadway, received approval from the State Banking Department as of April 30 to increase its capital stock from \$302,500 to \$667,500. The stock is in shares of \$5 each. The bank was also authorized on May 1 to open a branch office at 344 East 149th Street.

The Chemung Canal Trust Company of Elmira, N. Y., reports a capital of \$1,000,000, increased from \$800,000 as of April 30. The \$800,000 capital had consisted of 40,000 shares par \$20 each, while the \$1,000,000 capital consists of 200,000 shares, par \$5 each.

The capital of the First National Bank of Bloomingdale, N. J., has been increased from \$250,000 to \$500,000, effective May 15; part of the increased capital resulted from a stock dividend of \$125,000, while the sale of new stock to the amount of \$125,000 brought the capital up to half a million dollars.

A proposed increase of 200,000 shares in the authorized capital stock of The Pennsylvania Company for Banking and Trusts of Philadelphia was approved on May 28 at a special meeting of the bank's stockholders. It is expected that the proceeds of the new financing will exceed \$6,000,000 after the deduction of all expenses in connection with the issuance. The additional shares are being offered to the stockholders of record at the close of business May 28, in the ratio of one new share for each 5½ shares owned. Each stockholder will therefore be entitled to subscribe to 2/11 of a share of the new stock for each share owned. The directors of the company will fix the offering price of the new shares to stockholders of record at a meeting on June 4. Arrangements will be

made by which fractional shares may be bought and sold to make full shares. Upon completion of the proposed financing, said William Fulton Kurtz, President and Chairman of the Board certain adjustments will be made in the undivided profits account to bring the bank's surplus account up to a total of \$27,000,000, and capital and surplus, combined, to \$40,000,000. This will enable the bank to extend a maximum line of credit of \$4,000,000 to its larger commercial accounts, and the larger capital structure will not only provide a better balance in relation to deposits, but will enable it to further expand its services and activities. Plans to enlarge the capital were noted in our April 5 issue, page 1488, and May 17, page 2062.

The directors of the Tradesmen's National Bank and Trust Company of Philadelphia at their meeting on May 25, elected as a director of the bank William S. Louchheim, Executive Vice-President and Treasurer of Bobrick Manufacturing Corporation, according to an announcement by Harold Entwistle, Vice-President of the bank.

The Northwestern National Bank of Philadelphia, Pa., increased its capital as of May 8 from \$600,000 to \$700,000 by the sale of \$100,000 of new stock.

W. L. Hemingway, Chairman of the Board of Directors of the Mercantile-Commerce Bank and Trust Company, of St. Louis and Sidney Maestre, President of the Mississippi Valley Trust Company, of that City announced on May 21 that the Boards of Directors of their respective institutions had approved a plan whereby the assets and business of the two trust companies would be merged upon approval of the plan by their stockholders and by the Federal and State supervisory authorities.

Messrs. Hemingway and Maestre stated that the plan provides that the stockholders of the Mississippi Valley Trust Co. will receive in the aggregate 325,000 shares of \$25 par value stock of the merged trust company in exchange for the 240,000 shares of \$25 par value stock of Mississippi Valley Trust Co. now outstanding, and that the stockholders of Mercantile-Commerce Bank and Trust Co. will receive in the aggregate 500,000 shares of the \$25 par value stock of the consolidated trust company, together with an interest in certain surplus assets which the Mercantile-Commerce Bank and Trust Co. will withhold from the new institution. It was announced that all officers and other personnel of the two institutions will be retained by the merged trust company and that the ranking officers of the merged trust company would be: Chairman of the Board, Sidney Maestre, now President of Mississippi Valley Trust Co.; Chairman of the Executive Committee, W. L. Hemingway, now Chairman of the Board of Mercantile-Commerce Bank & Trust Co.; President, Gale F. Johnston, now President of Mercantile-Commerce Bank and Trust Co.; Executive Vice-Presidents, Eugene J. Mudd and Hord Hardin, Mercantile-Commerce Bank & Trust Co. and Mississippi Valley Trust Co., respectively.

It was stated in the St. Louis "Globe Democrat" of May 22 that as a result of the merger a new company, will be formed with resources exceeding \$600,000 to be known as the Mercantile Trust Company, which name it is stated is the same as before the merger of the Mercantile Trust Company with the National Bank of Commerce in 1929.

The "Globe Democrat" also notes that in the latest public bank statement on April 9, Mer-

cantile-Commerce showed de- rights to the new stock. This will involve purchasing 31,446 shares, an additional investment in the bank of more than \$1,380,000.

In making the announcement for the bank's board of directors, W. A. McDonnell, President of First National, said:

"The proposed addition of capital funds will enable us to continue to maintain a sound and satisfactory relationship between the bank's capital funds and its loans and deposits."

A group of investment firms, headed by G. H. Walker, & Co. of St. Louis, will underwrite the issue.

The Board of Directors of The National Bank of Commerce in New Orleans announces the election of John A. Oulliber as Executive Vice-President; L. W. McFaul and Thos. F. Regan as Senior Vice-Presidents and of the following officers: Robert M. Walsley III as Vice-President; John E. Wax as Vice-President and Comptroller; Charles A. Bonneau and Frank A. Brown as Assistant Vice-Presidents; Errol E. Buckner as Assistant Vice-President and Trust Officer; Irwin Glaser as Assistant Vice-President; Frank J. Basile and A. F. Finnegan as Assistant Cashiers.

H. W. Goldsmith to Admit

H. W. Goldsmith & Co., 50 Broadway, New York City, members of the New York Stock Exchange, will admit Robert B. Menschel, Exchange members, to partnership on June 1. Mr. Menschel has been active as an individual floor broker.

Harris to Admit

Harris & Co., 11 Wall Street, New York City, members of the New York Stock Exchange, will admit William J. Bergrath to general partnership and Hazel Dunham Harris to limited partnership in the firm on June 1.

NSTA



Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

Security Traders Association of N. Y. (STANY) Bowling League on May 25, 1951, the last bowling night, finished with a hotly contested match for the final winners. Arthur J. Burian (Daniel F. Rice & Co.) led his team to victory.

All awards of prizes will be made at the bowling dinner June 7 at Antlers Restaurant, 67 Wall Street, New York City.



Arthur J. Burian

SECURITY TRADERS ASSOCIATION OF LOS ANGELES



N. B. Van Arsdale



Harold Frankel



Roy Warnes

The Security Traders Association of Los Angeles will hold its Annual Spring Party at Lake Arrowhead Lodge the week-end of June 22, 23 and 24.

Neiland Van Arsdale of Blyth & Co., Inc. is Chairman and promises that this traditionally famous occasion will be better than ever.

An additional feature this year will be a special event to be conducted during the Friday evening cocktail hour.

For out-of-town guests this affair is recommended as a fine opportunity to become thoroughly acquainted with Los Angeles hospitality.

Other members of the committee are Roy Warnes of Hill Richards & Co. and Harold Frankel of Fairman & Co.

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Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

One of the most significant developments so far this year in the banking field has been the trend toward increases in capital funds. These increases in a great many cases have been made through the sale of additional capital stock to existing stockholders.

The financing has been occurring in all sections of the country with both large and small institutions in almost all principal cities obtaining additional capital funds.

One of the principal reasons for this action has been the increase in risk assets of the various commercial banks. Within the past year loans of all member banks have increased from approximately \$36 billion to \$45 billion. At the same time investments in U. S. Government obligations for the same banks have declined from \$57 billion to around \$50 billion. These same general trends have continued to operate over the past few months although exact figures are not yet available.

Demand deposits of member banks have been increasing during this period and at the end of last year totaled about \$89 billion as compared with \$83 billion a year earlier.

Of course, these changes were not spread uniformly throughout the economy. Some banks increased their loan totals considerably more than others. Deposit gains varied between localities and institutions.

One of the results of these various changes was that some of the banks which had previously been operating on a narrow capital ratio, found it necessary to augment their capital funds by the sale of additional stock.

Another factor important in encouraging the sale of new shares was the excess profits tax law.

When a bank is liable for this tax it may be advantageous, providing other factors also favor the sale, to enlarge the capital base by adding new capital funds. In other words when a bank is in the excess profits tax income bracket, it can by adding new capital, increase its excess profits tax base and, providing pre-tax income remains the same, lower its tax liability.

For example, the existing law allows corporations using the invested capital method of computing their excess profits tax base to include 12% of the first \$5,000,000 of invested capital, 10% of the next \$5,000,000 and 8% of the invested capital over \$10,000,000. On new capital additions, however, 12% is allowed.

Thus, it is possible, particularly among the larger institutions, to broaden their tax base by selling additional stock and obtain the benefit of the higher credit allowed on new capital.

This was undoubtedly one of the factors which influenced the two New York City banks to undertake financing during the past two months.

Public National Bank issued rights to its shareholders to subscribe to 151,250 shares of stock at \$40 a share. This added \$6,050,000 to capital funds. National City Bank is in the process of selling 1,000,000 additional shares to its stockholders at \$40 a share. This should add \$40,000,000 to the bank's capital.

Some of the other recent sales and announcements among the larger banks include the National City Bank of Cleveland, Pennsylvania Company for Banking & Trusts (Philadelphia), Anglo California National Bank (San Francisco) and Republic National Bank (Dallas).

Stockholders of the National City Bank of Cleveland are to vote June 4 on a proposal to increase the capital stock by 125,000 shares. The additional shares would be offered to stockholders at \$32 a share on the basis of one additional share for each five held. Approximately \$4,000,000 would be added to capital funds.

Stockholders of Pennsylvania Company for Banking & Trusts recently approved an increase in the authorized capital stock by 200,000 shares. These new shares are to be offered to stockholders in the ratio of one additional share for each five and one-half shares held. This sale is expected to add over \$6,000,000 to capital accounts.

The Anglo California National Bank during March and April offered to stockholders 250,000 additional shares in the ratio of one share for each three held. The subscription price was set at \$30 a share. Thus about \$7,500,000 was added to capital.

In April stockholders of Republic National Bank voted to issue 100,000 additional shares of stock to existing shareholders at \$40 a share on the basis of one new share for each eight shares held. This financing added about \$4,000,000 to the capital funds of Republic.

The same factors which have tended to encourage the increase of capital funds through the sale of additional capital shares are still present. As a result it is expected that additional financing will be undertaken by other banks.

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Needed: New Leadership In Foreign Policy

By HON. RICHARD M. NIXON*

U. S. Senator from California

Attacking Administration's foreign policy as lacking consistency and clearness, Sen. Nixon advocates among other things: (1) resignation of Secretary of State Acheson; (2) replacement of State Department's Far Eastern policy makers; (3) build-up of military power without damaging nation's economy, and (4) resistance to Communist domination in both Europe and Asia.

The confusion, inconsistency, and vacillation of the Administration foreign policy, as exemplified by the controversy over Dean Rusk's speech before the China Policy Association, brings home again the imperative need for a change of leadership in the State Department.

It is significant to note in this connection, that some Administration apologists have in effect taken the position that the need for unity and the recognition of the principle of civilian authority over the military are even more important than whether MacArthur was right or wrong on the policies he advocated. This in itself, is a confession of weakness both in the State Department's leadership and in its policy as well. Both these principles are important but what is more important is that we adopt the right policy in a moment of great national danger. This means that above all our policy should represent the best thinking of our national leaders, including those who disagree with the President as well as those who agree with him.

The country wants unity, but it does not want unity on a policy which has led to disaster or on the perpetuation and power of those who made that policy and who cannot be expected to make good on any other. In other words, the country does not want unity on defeat, or unity on disaster. Disunity hurts our cause without question but unity on a policy which was wrong could bring even greater disaster.

I have just returned from Europe where I had the opportunity to talk to General Eisenhower about some of the problems he faces. He is doing a great job against monumental odds. What is needed there as well as everywhere else in the free world is the will to win. Once the will exists there can be no question of the ability of the free nations to withstand and repel aggression.

That is why it is doubly important that the policy of the United States at this time be consistent, clear, understandable—one that will inspire confidence and faith. Rather than bribing and begging our allies to join with us, we must win their respect and the respect of our enemies as well. The type of leadership we presently have in Washington is not designed to inspire the confidence of our allies or the respect of our enemies.

For example, Administration spokesmen state that we will not be in a position to defend ourselves against Russian attack until 1953. The implication of such a statement is that until that time we invite aggression. Mr. Acheson says that our policy is "de-

*Excerpts from an address by Sen. Nixon at the 59th General Meeting of American Iron and Steel Institute, New York City, May 24, 1951.

being ground up on the Korean battlefield.

General MacArthur's critics say that his policy would involve us in the "wrong war in the wrong place at the wrong time." They fail to recognize that that is exactly the kind of war we are involved in in Korea today and that for that reason we must end the war with victory and not appeasement as soon as possible.

(7) In the great debate on foreign policy which is going on in the nation today, the major emphasis, and properly so, has been placed upon the necessity for rebuilding our military strength at home and abroad. We have failed to give adequate consideration, however, to the fact that the economic and ideological phases of the present world conflict can be just as decisive in the long run as military strength. The Communists have long recognized this fact and have built their whole strategy around it.

Marx, Lenin and Stalin have said over and over again that they may not have to defeat the capitalist nations in a military conflict; that on the contrary they may be able to force us to spend our way into bankruptcy in our efforts to defend ourselves from our enemies abroad.

That is why it becomes necessary as we prepare ourselves militarily to defend the nation against enemies abroad, that we declare war on waste and inefficiency in our government at home. Otherwise, we will run the risk of winning the war militarily and losing it economically.

(8) The greatest failure of our policy today is in the ideological field. Here, where we should be the strongest, the Communists with an inferior product to sell, have done a far better job selling it.

We should recognize that one of the greatest assets on our side in the present struggle is the millions of people behind the iron curtain who are not Communists. Recent reports have indicated that resistance groups are growing in strength in the iron curtain countries, and that with additional encouragement from abroad, they would be able to immobilize several divisions of Communist troops because of the threat they would present to the Communist governments.

We should quit talking about containment and defense and go on the offensive in the ideological conflict. We must never write off the people behind the iron curtain and must give them hope and encouragement in their struggle to become free.

An indication of our failure in the ideological field becomes apparent when we study the backgrounds of those who have become Communists in the United States. If men like Hiss and Remington, from good families, with top-paying government jobs and the best educational backgrounds, become Communists, what can we expect abroad?

What is needed is a campaign of truth to combat the falsehoods of the opposition on a scale far greater than any we have ever contemplated before. The Voice of America organization is not competent to handle this assignment. The whole program should be taken out of the State Department and set up as a separate agency similar to the ECA. It must be staffed with the best personnel available. The amount of funds appropriated for this purpose should be at least equal to that appropriated by the Communists, rather than less, which is the case at present.

Our task is to prove to people everywhere on both sides of the Iron Curtain that the hope of the world does not lie in turning toward dictatorship of any kind but that it lies in the development of a strong, free and intelligent democracy.

Securities Salesman's Corner

By JOHN DUTTON

The Program Sale

(Article 4)

Did you ever see Joe Louis in his prime? He would spar and block, and wait for an opening—then when he found it BOOM! That is what you do when you are probing with questions—you open your man up and you discover the main point in which he is interested. After you ask him some of the questions along the lines of those suggested in Article 3 of this series you have paved the way so that you can make your sale. How do you find out what a man owns, how much he has in the savings bank, in the checkbook, in building and loan associations, and whether his stocks are owned outright, etc.? This information, of course, is essential if you are going to show him how to improve his investment situation and can only be ascertained by asking questions. Sometimes the opening comes to you in one way or another; watch for it and then go to work. But only do this after you have softened up your prospect by asking other questions that are less personal than those we suggest here.

Here are some openings: How can a man protect himself from inflation? What if this boom busts, what will my stocks do? I've got some stocks but I don't know much about them—don't trust this Administration! What do you think of American Telephone? When your prospect asks you such questions, here is the answer: "Mr. Jones, I want to answer your question and it is a vital one, but may I first give you one suggestion?" He will say "Sure, go ahead." "Isn't where you will be financially, a year from now, five years from now, and even 10 years from now, the most important consideration? You do want to keep what you have, and build it up if you can for later years; that is just plain common sense, isn't it?" "Sure," he will say again. "Then there is only one answer, and it is the way our most astute investors have been doing for almost a century. Booms are followed by depressions, wars, panics, inflation, and deflation. Yet our colleges, insurance companies, large estates and many private individuals, not only keep what they have but they make money. Here is how they do it. They have a program. They distribute their assets scientifically. When stock prices and real estate are low they have money to buy. When stock prices and real estate are high they have less of both, and more of stable assets such as cash, government bonds, savings accounts, etc. They always have investments, but the kind of investments which they have—in other words the way they distribute their assets—is the difference between success and failure."

Then find out if he agrees. Take out your pencil and paper and say, "Let us find out where you stand now—let's see if you have your

NYSE Golf Ass'n Tournament June 26

The 52nd Annual Tournament of the New York Stock Exchange Golf Association will be held on Tuesday, June 26, at the Winged Foot Golf Club in Mamaroneck, it was announced by Henry Picoli, Chairman of the Association.

About 200 members of the Exchange are scheduled to compete for the Governor's Cup, presented annually by the Board of Governors of the Exchange to the golfer turning in the low net score. Some 300 additional members are expected to attend the outing after the close of the market, Mr. Picoli said.

Winner of the Governor's Cup last year was David P. Currey of Bendix, Luitweiler & Co., who carded 92-25-67. Robert J. Jacobson of Benjamin Jacobson & Co., with a score of 78, won low gross for the third successive year.

Richard M. Crooks, Chairman of the Board of Governors of the Exchange, will be the guest of honor and will tee off in mid-afternoon in company with Robert P. Boylan, John A. Coleman and Robert L. Stott.

Joins R. H. Johnson

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Robert M. Thorner has become connected with R. H. Johnson & Co., 70 State Street.

With Calhoun & Co.

(Special to THE FINANCIAL CHRONICLE)

SPARTANBURG, S. C.—John B. Butler has become associated with Calhoun & Company, 124½ Morgan Square.

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Mark Borgatta With Troster, Singer & Co.



Mark A. Borgatta

Troster, Singer & Co., 74 Trinity Place, New York City, securities dealers, announce that Mark A. Borgatta has joined the organization as manager of the research department. Mr. Borgatta was formerly with Granbery, Marache & Co. and Standard & Poors Corp.

Petition Sat. Closing For N. Y. Stock Exch.

A petition signed by 329 members of the Exchange was submitted to the Board of Governors of the New York Stock Exchange at its meeting May 24.

The petition asks the board to submit to the membership, for balloting, an amendment to the Constitution which would provide that the Exchange shall not be open for the transaction of business on Saturdays unless the Board of Governors shall determine that the opening of the Exchange on a specified Saturday is necessary because of unusual circumstances.

Article XVIII of the Constitution provides that when an amendment to the Constitution is proposed by a petition signed by 175 or more members, it must be submitted to the membership within from two to seven weeks after receipt with or without the approval of the Board of Governors, for balloting by the membership.

FIC Banks Place Debs.

A successful offering of two issues of debentures of the Federal Intermediate Credit Banks was made May 17 by M. G. Newcomb, New York fiscal agent for the banks. The financing, totaling \$107,500,000, consisted of \$35,000,000 2.05% consolidated debentures due Sept. 4, 1951, and \$72,495,000 2.25% consolidated debentures due March 3, 1952. Both issues will be dated June 1, 1951, and were placed at par.

Of the proceeds, \$47,665,000 was used to retire a like amount of debentures maturing June 1, 1951, and \$59,835,000 will be new money.

As of the close of business June 1, 1951, the total amount of debentures outstanding will amount to \$742,570,000.

With H. L. Robbins

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, Mass.—Harry W. Rutishauser is now with H. L. Robbins & Co., Inc., 390 Main Street.

With Hornblower & Weeks

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—Edward J. Vitale has been added to the staff of Hornblower & Weeks, Penobscot Building.

With Kidder, Peabody

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—David Doughty Ogden has joined the staff of Kidder, Peabody & Co., 75 Federal Street.

Railroad Securities

Missouri Pacific Reorganization

Opponents of the Missouri Pacific plan of reorganization were dealt a severe blow with the announcement recently of the results of the voting by security holders. Certification of the voting to the court by the Interstate Commerce Commission had been delayed considerably longer than is customary. The general feeling had been that the delay had been caused by substantial changes in ballots stemming from the extensive publicity campaign waged by the debtor corporation and Alleghany advising rejection of the terms of the plan by all classes of security holders. From the nature of the results as announced there can not have been any great amount of shifting of sentiment on this score.

In the 14 classes of security holders and creditors entitled to vote on the plan a substantial majority of those casting ballots in 10 classes approved the terms. The major dissenting group was the Missouri Pacific preferred stock where some 95% of the properly cast votes were against the plan. The Secured Serial 5½s, which are secured by New Orleans, Texas & Mexico common, voted some 80% against the plan, and this same percentage negative vote was naturally carried through to the pledged stock. In effect, obviously, these two classes of security holders represented only one group. The fourth opposing vote came from minority holders of unpledged New Orleans, Texas & Mexico stock.

On the other end of the scale, and as had been generally expected, senior bond holders of all three constituent roads (Missouri Pacific; New Orleans, Texas & Mexico, and International-Great Northern) voted large majorities in favor of the plan. These are the bonds that, because of their lien position, would be accorded the most liberal treatment in any plan of reorganization or readjustment. What was particularly gratifying to proponents of the plan was that junior bondholders of both Missouri Pacific and International-Great Northern also upheld the ICC proposals.

The Missouri Pacific General 4s voted 73% in favor of the plan, the Convertible 5½s were 70% in favor, and the I.-G. N. Adjustments cast affirmative votes in the ratio of 74%. These particular issues have been speculative trading favorites for many years so that they have become widely distributed among individual holders. Concentrated institutional holdings are very few. It had been believed in some quarters, therefore, that publicity against the plan might have had greater influence than would be the case with the senior bonds.

While the plan has had the approval of a majority of the affected security holders the case is by no means finished as yet. This latest step merely marks the certification of the results of the voting to the U. S. District Court by the ICC. Because there were some classes voting against the terms the District Court will now have to have hearings before it may certify the plan finally as fair and equitable. These hearings have been set for June 25 in St. Louis and objections to confirmation must be filed by June 15. Unquestionably objections will be filed at least by the debtor corporation, Alleghany, and presumably, holders of the Secured Serial 5½s who voted against the plan. The debtor corporation and Alleghany are both fighting to get some recognition for the old com-

mon stock. This issue, which is not entitled to vote.

How it will eventually end is still, of course, uncertain. The general feeling, based on the history of the whole proceedings and the results of the voting, is that Judge Moore will almost certainly confirm the plan. Just as certainly the whole thing will be carried to the higher courts. Consummation must still be considered as being a year and a half to two years off no matter whether the present plan or some substitute finally prevails. Nevertheless, the latest development justifies hope that the present plan will eventually be the one adopted.

NYSE Members Seek Saturday Closing

A petition signed by 329 members of the New York Stock Exchange was submitted to the Board of Governors at its meeting on May 24, asking the Board to submit to the membership, for balloting, an amendment to the Constitution which would provide that the Exchange shall not be open for the transaction of business on Saturdays unless the Board of Governors shall determine that the opening of the Exchange on a specified Saturday is necessary because of unusual circumstances.

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With Protected Investors

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Robert P. Davis is now affiliated with Protected Investors of America, 130 Montgomery Street.

Two With Inv. Service

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—William H. Hiatt and Jerome G. Schaefer have become connected with Investment Service Corporation, 650 17th Street.

With Hutchinson Co.

(Special to THE FINANCIAL CHRONICLE)

PUEBLO, Colo.—Robert S. Barr has become associated with Hutchinson and Company, Thatcher Building.

With Francis I. du Pont

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, Fla.—Maurice Hurwitz has joined the staff of Francis I. du Pont & Co., 2809 Collins Avenue.

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Current Economic Trends And Their Implications

By O. GLENN SAXON*

Professor of Economics, Yale University

Yale economist, contending, in consequence of unsound monetary, fiscal and tax policies over past two decades, we have seriously strained our national economy, reviews economic developments, particularly in field of war financing. Sets forth conditions under which further inflation can be avoided, stressing balanced budgets; tax revisions to encourage investment, production and revenues; and end of monetization of Federal debt.

In the short space of 36 years since 1914 the United States has been converted from a relatively unimportant and a strictly agricultural member of the family of nations into the most productive industrial nation of all time — from the world's largest debtor nation to its largest creditor nation. Admittedly, we stand today as the most powerful, the most productive and the most prosperous nation of the world, with the highest standard of living ever known in history.

With only 6% of the population and only one-seventh of the land area of the world, we produce nearly half the annual world production of goods and services. Our man-hour productivity is 2 to 10 times greater than that of other nations. It is the result of our free competitive system and our capital savings, which have made possible technological developments that have increased the real wages of our people to five times those of 100 years ago, while sharply reducing their working hours. Meanwhile our over-all productivity has increased at the rate of about 2½% per year, doubling our production every 30 years.

The World Wars since 1914, with their devastation and inflation, the intervening world-wide depression with its disastrous deflation, the destruction of formerly powerful nations, the breakup of the German, Italian, Japanese, and British empires, and the worldwide economic and political revolutions of the past three decades have forced upon us the responsibilities of empire, of leadership of the Western World, and of protection of its liberty, its territory, and its way of life from aggression.

In the past the responsibilities of empire were fought for by nations which lived to a major degree upon the resources and manpower of their conquests or of the peoples whom they defended from external aggression or internal disorder. This we cannot and do not choose to do. On the contrary, no nation in history, except the United States, has poured out billions upon billions of dollars of its natural resources and income to assist others without expectation of repayment or profit.

The great responsibilities forced upon us cannot be avoided without disaster to ourselves, as well as to the rest of the Western World, so long as the threat of world-wide aggression and totalitarianism hangs over a world divided about equally on ideological lines—free enterprise versus stat-



Dr. O. Glenn Saxon

ism. Yet the costs of rearming and defending the free world are far too great for our resources and manpower alone. Much of the cost must be borne abroad. Our objective must be to encourage maximum self-help abroad, while we put our own house in order. We cannot save ourselves or the rest of the world unless we remain strong externally and protect our own internal economy from collapse into Communism or its halfway house, Socialism. Nor can we afford to permit our assistance to be used abroad merely to bolster up tottering, sterile, and inefficient socialistic or communistic economies, policies, or practices which otherwise would collapse.

Despite our great efficiency, productivity, natural resources, and skilled labor force, there are limits beyond which we cannot go without danger of national bankruptcy. Already, largely as the consequence of unsound monetary, fiscal, debt, and tax policies over the past two decades, we have seriously strained our national economy. If these policies are continued into this decade of rearmament in our efforts to avoid World War III, we are quite likely to be forced into national insolvency. If that should happen here, as has happened to many great empires of the past and to even greater empires in this century, the results will almost certainly be the same—totalitarianism in some form and the destruction of our free, competitive, constitutional democracy. We still can reverse our trend and reestablish sound principles of free enterprise and sound monetary, fiscal, and tax policies. It is not too late, but the time is fast running out.

The Growth of Federal Spending

In the first 127 years of our nation—from 1789 to June 30, 1916—total expenditures of the Federal government were only \$27 billion. The net deficit for the period was less than \$1 billion. These figures include the recognized debts of the Revolutionary War and the costs of the War of 1812-15, the Mexican War, the Civil War, and the War with Spain.

In the next 24 years alone—from 1916 through 1940—total Federal expenditures soared to \$142 billion and the accumulated debt to \$42 billion. These expenditures include the costs of World War I and the New Deal War of 1933-40. Over the entire 151-year period—1789 through 1940—Federal expenditures were only \$169 billion.

However, in the five years of

World War II—1941 through 1945—total Federal expenditures skyrocketed to \$321 billion, total revenues were only \$130 billion, and the deficit for these five years soared to \$191 billion. Federal expenditures in these five war years actually exceeded those of the previous 151 years by \$152 billion.

Yet, in five peacetime years of President Truman's administration—pre-Korea—Federal deficits have been \$16.5 billion and Federal expenditures have exceeded \$225 billion. In fact, his expenditures in the last five years were \$56 billion in excess of total Fed-

eral expenditures from 1789 through 1940, which included the costs of six wars and the great depression of the 1930s.

Federal Expenditures and National Income

Annual expenditures of the Federal government from 1900 through 1914 averaged less than \$1 billion and absorbed about 2% of the current national (personal) income of that period. After World War I, in the decade of the 1920s, annual expenditures averaged about \$3.5 billion and absorbed about 4% of national income. In the 1930s annual expenditures averaged about \$6.2 billion and absorbed about 10% of national income. In 1940 they absorbed 11.7%. Between 1946 and 1950 (pre-Korea) they have averaged \$45 billion and absorbed almost 21% of the average national income of that period.

For the coming decade President Truman has projected Federal spending under the rearmament program to an annual minimum of \$75 billion and a maximum of \$90 billion without all-out war. This minimum Federal budget will absorb about 34% and the maximum budget about 41% of the \$220 billion, estimated as our 1950 all-time high national income, which before World War II had never exceeded \$80 billion (in 1929). If state and local government expenditures of \$15 to \$20 billion annually are added to estimated Federal expenditures, the combined minimum will absorb 40% and the combined maximum 50% of the (1950) national income.

Past experience here and abroad shows that no nation can for long take more than 25% of national income for government without recourse to deficit spending, large-scale borrowing, sharp increases in the national debt, and the issue of huge amounts of irredeemable paper money through one device or another. Fundamentally, the reason is the lack of political courage to tax adequately to maintain balanced budgets. Printing-press money is a concealed form of taxation, but it falls most heavily upon those who can least afford to pay and at best it falls haphazardly without reference to equity, logic, or economic effect.

Too heavy taxation, however, destroys incentives to produce. Large-scale borrowing is resorted to, therefore, in order to spread the burden over future generations, but generally it fails to accomplish that objective. The adverse effects, however, can be minimized by proper methods of borrowing.

The United States, with its high standard of living, can afford to tax more heavily than nations with lower living standards because the margin above minimum requirements of our people is greater here than elsewhere, but this course requires proper methods of taxation. In any case, improper methods of taxation or borrowing can lead to national bankruptcy. While our (real and dollar) national income is certain to rise under the stimulus of the rearmament program, it is highly questionable whether for long, except in time of all-out war, we can take for all government more than 33½ to 40% of our national income without national bankruptcy, economic chaos, and socialism.

The Growth of Federal Debt

In 1790 the Federal debt was only \$72 million. At the end of the War of 1812-15 the debt had risen to \$129 million—13% of annual national income of the period and only \$15 per capita. This debt was entirely eliminated by 1835 and for some years annual dividends from Federal surpluses were distributed among the states.

The Civil War raised the national debt to \$2.7 billion (in 1865)—50% of national income and \$78

per capita. This debt was slowly reduced over the years to \$1.2 billion—only \$12 per capita and 4% of national income—in 1914.

World War I raised the debt (in 1919) to \$25.5 billion—\$240 per capita and 40.5% of national income. Federal surpluses between 1920 and 1930 reduced this debt to \$16 billion, but by mid-1933 depression deficits raised it to \$22.5 billion—\$163 per capita. Six years later (1939) it had risen under continuous deficit spending of the Roosevelt Administration to \$45.9 billion (including guaranteed debt)—\$350 per capita and 67% of national income—an all-time high until then. The deficit spending in nine years of the depression decade created a debt which was \$5.5 billion greater than that created by World War I.

Five years of World War II—by (mid) 1945, when President Truman took office—raised the debt to \$259 billion—\$1,890 per capita and 152% of national income! By 1950 the debt fell back to \$257 billion—\$1,708 per capita and 120% of national income. This is not a healthy condition with which to face the threat of World War III or a decade or more of rearmament of ourselves and the rest of the Western World.

In the 36 years between 1914 and 1950 our Federal debt has risen from \$1.2 to \$257.4 billion—from 4 to 120% of national income—and from \$12 to \$1,708 per capita. Meanwhile our national income has increased only from \$34 billion to \$222 billion and our population only from 113 million to 150 million.

In mid-1950 (pre-Korea) the combined Federal, state, and local governmental debt of the United States was \$281 billion—131% of national income and \$1,865 per capita. This combined total was 4.3 times the combined debt of 1940, while 1950 national income (in dollars) was less than 3 times that of 1940 and the 1950 national production (in volume) was not more than 45% above the 1940 level.

This record of debt growth is technically due to the unbalanced budgets during two world wars and the depression of the 1930s. It is mainly due to a stubborn refusal since 1933 to recognize the need for debt reduction in times of prosperity in order to have a margin for debt growth in emergency periods. This attitude is due to the acceptance of the socialistic doctrine that the size of the national debt is of no consequence so long as it is owned internally. This doctrine has been accepted in Washington in order to justify continuous expansion in the functions and expenditures of the Federal government without regard to the current ability of the nation to sustain them, and without consideration of the requirements of potential future emergencies. It has been steadfastly adhered to, despite the almost inevitable consequence—eventual national bankruptcy.

From 1900 to 1930—other than in 4 years of the World War I period—the Federal budget was balanced each year except for nominal amounts. Between 1920 and 1930 the debt was reduced annually—about 40% in the decade—while tax rates were steadily reduced. Between 1930 and 1950 the budget has been balanced in only 2 years—1947 and 1948—when a Republican Congress forced a balance upon the administration.

This debt record raises many problems. The first and most important is how much greater can it grow without genuine fears of its ultimate repudiation in toto, either directly or, more likely, indirectly through inflation. The second question of major importance relates to the continued monetization of the debt and its

disastrous consequences to the nation.

One would expect, in view of this debt expansion record, to find that the tax burden and tax rates had not appreciably increased since 1914—but, let's look at that record.

The Growth of Federal Taxes

In 1915 the per capita tax receipts of the Federal government were only \$6.16. World War I raised them to \$43.39 in 1919. By 1933 they had fallen to \$14.40, but by 1935 they had nearly doubled at \$28.11. In 1940 they had risen to \$37.61 and in 1945, at the peak of costs of World War II, they hit an all-time high of \$309.27. Since the end of World War II they have declined only 24%—to \$235.95 in 1950, when they were 6.3 times those of 1940, though national income between 1940 and 1950 increased less than 3 times.

In 1930 the combined tax receipts of the Federal, state and local governments absorbed only 11.9% of the net national product. By 1935 they were absorbing 16.3% and in 1940 they took 18.2%. By 1945 they absorbed 25.9%. In 1949 they took 23%, a decline of only 11.2% from 1945 at the peak of costs of World War II.

More important than the percentage taken for government in taxes, however, are the methods of taxation and the distribution of the tax burden. Prior to 1913, Federal revenues were derived largely from excise taxes and import duties without revenues from corporate or individual income taxes. The Federal constitution prohibited the levy of income taxes unless they are apportioned among the states in accord with their population. Such a tax was not feasible under modern conditions. The 16th Amendment, which became effective in 1913, authorizes Congress to levy taxes "on incomes from whatever source derived" without apportionment among the states. This Amendment takes off all the brakes. Congress can now levy taxes on gross or net income at any rate it desires and may levy either a flat rate (proportionate) tax or assess highly discriminatory and steeply graduated rates—without limit—on either gross or net incomes, as defined by Congress.

This, of course, is the acceptance of the unlimited graduated income tax, advocated by Karl Marx in 1848, as one of the surest methods of destroying a capitalistic society. This tax is used by all socialistic governments as the most effective vehicle for the redistribution of wealth and income from one person, group, or community to another person, group, or community, as well as the best device to prevent the accumulation of private savings and capital for risk-absorbing and job-creating private enterprises.

The Federal Income Tax

The Federal government since 1933 has used the graduated income tax for these purposes. Through it we have already been taken far down the road to socialism. The tax has in more recent years become a tax on capital as well as income.

The tax on individual net incomes (as defined by Congress) started in 1913 with a normal rate of 1% only, with a graduated surtax ranging from 1 to 6% (on the higher brackets). By 1930 these surtax rates ranged from 1 to 20%. By 1939 in time of peace the normal rate had risen to 4%, with the surtax ranging from 4% on incomes of \$4,000 to 75% on those over \$5,000,000. The all-time peak was reached in 1944, when the normal rate was 3%, with a surtax of 20% on the first \$2,000, ranging up to 91% on incomes over \$200,000, but with an over-all ceiling of 90%. At present, the

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*An address by Dr. Saxon before the opening session of the 31st Annual Conference of the National Association of Mutual Savings Banks, Atlantic City, N. J., May 7, 1951.

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The Steel Industry in A Defense Economy

threat of more war, all engulfing, continues to hang over us.

A garrison state and wide controls by government appear to be inseparable. In theory, it always seems feasible to expect high patriotism to assure prompt priority for all defense needs, while pure altruism is expected to produce a fine balance of complete equity in the division of anything that may be available beyond those needs. However, the most plausible theory can fail when faced with the effects of human selfishness and desire for special advantage. Then conditions are created for government to step in with its ever-ready regulation and controls.

Thus it was when war was pressing in 1917 and 1918 and again in 1941 and 1942. Now the cycle is seemingly under way for the third time.

It is already evident that fine theory is failing as before, and that whether we like it or not, or really need it, the steel industry is marked for sweeping controls. In the early framing of such controls, men from the industry were asked to give advice and help. Likewise men of practical experience and knowledge have been drafted for responsible places in the administration of the controls. To a degree, therefore, industry wisdom and ability have helped so far to guide the course of action. As a result, the transition from a great unrestrained consumers' boom to a largely regulated economy is being accomplished without undue disturbance of steel or other basic industries. Fortunately so, because unwise controls, or inept administration can seriously weaken the nation's economic and defensive strength.

If this initial policy prevails, it may be possible for a regimented steel industry to go for some time without permanent or too serious damage to its essential efficiency or vitality. But there is room for grave doubt regarding the survival of that initial policy through a prolonged persistence of the garrison state. Can the steel companies continue indefinitely to make available the men of broad experience and outstanding abilities needed to deal wisely with the many problems that are unavoidable in applying controls to a great and complex industry like steel? Will the steel companies be asked or allowed to provide such men, even if they are available?

The company answer must be obvious. If only self interest is considered, the job must be adequately manned. The government answer is far less certain.

Wherever the hand of government rests very long, bureaucracy begins to flourish. Bureaucracy, once rooted, rarely withers and never dies. It may be cut back; it may be transplanted. But its will to survive goes on forever.

If there is any real ground for present concern, it is not how much steel may be left in the free market, for making the gadgets of easy living, but it is the grave question of what may be done to us by prolonged bureaucratic control, imposed in the name of an emergency for which no ending is visible.

Right there comes the big problem: how to keep the direction and purpose of controls aimed only at the first goal of mobilization and preparedness, how to make sure that controls do not live beyond the time of imperative need. Otherwise there opens an easy way for government to hold

Continued on page 23

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Federal Income Taxes

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(to be added)

Due	Price or Yield	Amount	Rate	Due	Price or Yield
1959	1.65%	\$3,398,000	2%	1966/59 @ 100	
1960/59 @ 100		3,466,000	2	1967/59 @ 100	
1961/59 @ 100		3,535,000	2	1968/59	2.05%
1962/59	1.80%	3,606,000	2	1969/59	2.05
1963/59	1.85	3,678,000	2	1970/59	2.10
1964/59	1.90	3,752,000	2	1971/59	2.10
1965/59	1.95				

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ts, Attorneys, Seattle, Wash.

Northern Trust Company Harris Trust & Savings Bank J. P. Morgan & Co.

Incorporated

orporation Harriman Ripley & Co.

Incorporated

Seattle-First National Bank

Seattle

National Bank

Portland, Oregon

Bear, Stearns & Co.

Weeden & Co.

Incorporated

Dominick Hallgarten & Co. Harris, Hall & Company Hayden, Stone & Co.

(Incorporated)

Co. Bache & Co. Barr Brothers & Co. Central Republic Company

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pany Hirsch & Co. Carl M. Loeb, Rhoades & Co. Laurence M. Marks & Co.

F. S. Smithers & Co. Stroud & Company Trust Company of Georgia

Incorporated

W. H. Morton & Co. Northwestern National Bank The Ohio Company

of Minneapolis

Robert Winthrop & Co. Bacon, Whipple & Co. William Blair & Company

Illinois Company Laird, Bissell & Meeds Mercantile Trust Company

of Baltimore

Wood, Gundy & Co. Robert W. Baird & Co. J. C. Bradford & Co.

Incorporated

ett & Sons G. C. Haas & Co. Hall & Company Hayden, Miller & Co.

National Bank of Seattle Reinholdt & Gardner Ryan, Sutherland & Co.

Company Tripp & Co. Tucker, Anthony & Co.

Inc.

Continued from page 22

The Steel Industry in A Defense Economy

a permanent share in the conduct of this industry, and there are men who still want government empowered to build and operate steel plants. Call it nationalization, or by any other name, the effect is the same. It is the nature of government to be less efficient than private enterprise in any field. Any loss of efficiency in steel-making means less satisfactory living, less economic strength, less military might for the nation.

Basic Industrial Strength Must Not Be Sacrificed

Concentration on efforts to build up military power must not be allowed to sap the basic industrial strength of the country. Will we detect with the continued threat of war those other threats to private enterprise under private management? Will we realize before it is too late how long this country can stand the economic stresses of indefinite readiness for war? What sort of economy is likely to be their product? The situation calls for constant watchfulness by steel men, to safeguard their industry and with it the whole structure of our economy, which ostensibly we aim to preserve.

However important our relations with other nations may be, there is grave peril revealed in the attitude of an eminent citizen who recently said, "we could be wrong on every other subject and still if we are right on our foreign policy the country is so rich and virile that it could pull out of its domestic mistakes and continue its forward march."

Just how, for instance, would we pull out of the mistakes of socialistic injection of government into industry? How could steel continue its forward march? Only solid internal strength can successfully withstand the present grave threats from without. Domestic mistakes impairing that strength could negative any foreign policy, however right or wise. There never was an economy strong enough to survive the sapping effects of government-fostered inflation.

Two other items belong in this rapid look at the developments of a notable year. After almost a hundred years of steel migration westward, two big companies now reverse the trend, with plans for important plants in locations near the eastern seaboard. Foreign ore supplies are taking on wholly new significance, while solving the riddle of domestic taconites appears to have met success. Events of vast significance to this industry crowd into view. Steel is not static. Much that is now purely speculative may affect its future profoundly. But one fact endures. With the industry as it stands today and as it can continue under able private hands, there cannot be any question about the future of this country so far as steel supply is concerned!

Estabrook to Admit Kemble and Sears

BOSTON, Mass.—Estabrook & Co., 15 State Street, members of the New York and Boston Stock Exchange, will admit William T. Kemble and Edmund H. Sears to partnership on June 30. Both have been with the firm for some time.

E. E. Mathews Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Francis H. Grant is now with Edward E. Mathews Co., 53 State Street.

Outlook for Consumer Finance Industry Under Credit Controls

By ERNST A. DAUER*

Director of Consumer Credit Studies
Household Finance Corporation, Chicago, Ill.

Though asserting declining production of civilian goods over next few years in face of high level of employment and higher wages creates greatest threat to economic stability in century, Dr. Dauer decries effect of consumer credit controls as inflation curb. Estimates present Regulation W will not reduce consumer loans by more than 6% in next year. Points out field most effectively served by finance companies in current situation and urges realistic policies in combating inflation.

The consumer finance business, along with other segments of the consumer credit industry, enjoyed its best year on record in 1950.



Dr. Ernst A. Dauer

In New York State, and throughout the country, all measures attained peaks: the volume of loans made, the outstanding loan account at the end of the year, gross income, and net income.

This is not surprising, since 1950 represented the peak year of postwar business activity, both in terms of physical units and dollar amounts. Industrial production, new construction, civilian employment, hourly and weekly earnings, total personal income, consumer expenditures, total retail sales—all were at peacetime peaks. Thus again the truth of the axiom was verified, that the consumer finance business is good, when business in general is good.

The last half of 1950 differed sharply from the first half in its characteristics. Beginning with the outbreak of the Korean conflict, business activity was influenced to an increasing degree by actions brought about by defense mobilization. The country was subjected to periodic Washington pronouncements which usually exaggerated the degree and rapidity of increase in the proportion of output to be required by the defense program, and the extent of the decrease in available supplies of civilian goods. There were also forecasts of price, wage, and material controls, alternated with denials of their need. Since consumers had vivid recollections of the scarcities and of the quality deterioration of the last war, it is not surprising that they anticipated their needs and went on a buying spree. Businessmen, too, were influenced by these developments. Merchants built up inventories, and manufacturers overbought raw materials. Unions and employers alike attempted to "beat the gun" on controls. Higher wages and raw material costs were passed on through higher prices, thus causing a spiral of price increases.

The Current Business Situation

In January and February, consumers engaged in a second buying spree chiefly for consumer durable goods. Since then, they seem to have become convinced that substantial supplies of durable goods will continue to be available for a considerable period of time. The resultant elimination of scare buying, which had in part moved normal demand forward, has brought a greater than seasonal decline in sales of durable goods. Since output has exceeded last year's high levels in

¹ In the first quarter of 1951, radio output was 27% above the first quarter of 1950; television output was 37% higher. Car production was also higher.

² The Controlled Materials Plan for allocation of steel, copper and aluminum is scheduled to become effective July 1, 1951. Currently the use of steel for cars is limited to 80% of the monthly average of the first half of 1950. This is to be cut to 75% beginning June 1; a further cut to 70% on July 15 is anticipated.

many categories,¹ finished goods inventory has accumulated. Some dealers have marked down prices of durable goods to stimulate their sale. Manufacturers of television sets have brought out some lower cost models to stimulate sales.

It is important to recognize that the fluctuations in activity of recent months resulted from fear of shortages—fear which was translated into action by consumers and businessmen. The inflation since Korea has not been the result of defense expenditures, or of government deficits. Defense expenditures showed practically no increase until 1951. In this fiscal year, there has been no Federal deficit—in fact this is only the third year in 20 in which the Federal government has not had a deficit.

The General Business Outlook

From this point on, government expenditures will play a bigger role. During 1948, 1949, and 1950, defense expenditures amounted to about 5% of the total output of the country (i.e., the gross national product). During the first quarter of this year, defense absorbed about 8% of total output. Now it is about 10%.

Mr. Charles Wilson, Director of Defense Mobilization, has stated that by the end of this year the figure will be 15%. In 1952, when the Defense Program will reach the peak, he estimates that it will take about 20% of all goods and services. This figure may be compared with approximately 45% at the peak of the last war. For the purpose of this discussion, I am assuming that defense production will be increased at about the projected rate.

It is possible, of course, that the increase in defense production will be somewhat less rapid than Wilson has forecast. Up to the present time the tooling-up process has proceeded at a much less rapid rate than was anticipated, and has acted as a bottleneck. It may continue to do so for a considerable period of time.

Regardless of the rate of rapidity of increase in defense production, the general business outlook is clear. The likelihood of any general letdown in business activity is nil, unless peace "breaks out." Total production will be at a high and rising level, with a gradually declining proportion of total output represented by civilian durable goods. The decline in output of civilian durable goods will be at an irregular pace, as dictated by restrictions on the use of materials.² Work stoppages will occur to an increasing degree here and there, as a result of inability to secure a proper balance of raw materials. However, manufacturers will continue output of civilian goods at as high levels as raw materials and manpower will permit,

since they anticipate progressively more severe curtailment.

Effectiveness of General Controls

This expectation of declining production of civilian goods, over the next year or two, in the face of a continued high level of employment at high and increasing wages, has created the inflation problem—the greatest threat to the economic stability of the country in almost a century. It is this problem which has brought controls and constitutes their alleged justification. To discuss, in detail, the various different controls, and the measures which have been taken to deal with the inflation problem, would require more time than we can devote.³ A brief summary of conclusions must suffice. We can keep inflation within bounds, only if we face economic realities and have the determination to act as they require.

Price controls merely conceal and defer the effects of inflation. In doing so, they either disrupt production or fail to control prices. Their merit lies in giving us a breathing spell—an opportunity to review and reappraise the future. Basically, price and wage controls deal with the symptoms and not with the causes of inflation.

Inflation is the result of a monetary demand for goods and services which exceeds the available supply. To cope with the problem created by high and rising current income, we need prompt and vigorous action on several fronts:

(1) we need economy in government at all levels, which will eliminate unnecessary waste in both military and nonmilitary expenditures and defer all nonessential civilian expenditures; (2) we need adoption of appropriate taxes which will balance the budget, curtail civilian expenditures, and not impede production; (3) we need a realistic government policy which will encourage long-term savings; and (4) we need every possible effort to increase total production.

Credit controls of the traditional pattern—open market operations and rediscount rate changes—are powerless to prevent credit expansion in the face of the huge Federal debt. If the Program for Voluntary Credit Restraint does not prevent further credit expansion, the Federal Reserve can do so only if it is given drastic powers through new legislation.

Even if we take all these steps promptly and vigorously, nevertheless our legacy of almost 20 years of deficit financing remains in the form of the excessive money supply and the huge volume of accumulated liquid savings. These remain as potential inflationary forces of great strength, ready to burst forth if consumers and business are driven again by an intense desire for goods, such as occurred last summer and winter.

The Appropriateness of Selective Controls

The selective controls on consumer credit, on real estate credit, and on stock market credit are weak reeds with which to try to hold back such powerful forces. It is desirable to consider, in somewhat greater detail, the appropriateness of Regulation W.

The announced purposes of Regulation W, when it was reimposed, were: (1) to facilitate the transfer of critical raw materials and manpower to defense production; and, (2) to reduce inflationary pressures caused by growth of consumer instalment credit.

Let us examine these purposes. Consumer credit controls cannot facilitate the transfer of critical raw materials and manpower from peacetime to defense production. Experience of the last few months, as well as during World War II,

indicates that manufacturers of consumer durable goods produce as much and as long as they can, when they anticipate an eventual sharp reduction in output. Rapid transfer of civilian facilities to war production can be accomplished only through material allocations and manpower restrictions.

Controls can prevent the growth of consumer credit. In the last three months of 1950, consumer instalment credit outstandings increased only \$116 million, as compared with an increase of almost \$2.5 billion in the preceding nine months. In the first quarter of 1951, consumer instalment credit also showed a greater than seasonal decline. But that does not prove that inflationary pressures have been thereby reduced.

The regulation has eliminated some marginal purchasers who did not have sufficient cash or earning power to meet the higher requirements. However, it is unlikely that Regulation W had a material influence upon the effective demand for durable goods during most of the period in question. That was determined almost entirely by the degree of fear of impending shortages, of higher prices, and of deterioration of quality. Those fears caused widespread use of savings to obtain goods; the very large volume of liquid assets prevented the normal effect of higher requirements on demand.

The purchase of continued output through the use of available bank deposits and liquid assets activated deposits which were lying idle and not being used. This has exactly the same effect inflationwise as an equivalent amount of consumer credit would have had. The very small increase, proportionately, in the total money supply, which unrestricted use of consumer credit would have brought about, is almost insignificant from an inflationary point of view.

The inflationary effect of consumer credit is vastly overrated by the average person. In no single year, from 1929 through 1950, has the increase in consumer instalment credit outstandings amounted to as much as 1½% of disposable personal income, that is the total annual purchasing power of consumers after taxes. Even that increase in consumer credit did not result in a commensurate increase in the money supply. For example, during 1950, the outstanding loans of Household Finance Corp. increased \$30 million. Only \$4,400,000 of that increase, or less than 15%, was represented by an increase in bank loans. The balance represented sale of securities to insurance companies and other nonbanking investors and retained earnings. Since that expansion in consumer credit was made possible through the use of savings, it was noninflationary in effect.

In the period under review, therefore, the regulation of consumer credit has had a negligible effect in fighting inflation.

The Effect of Regulation W On Outstandings in World War II

Let us now turn our attention to the matter of most direct concern to the consumer finance industry, the effect of Regulation W on the total of outstanding loans.

During World War II, outstanding balances in the entire consumer instalment credit field fell precipitously, declining from over \$6.3 billion in August, 1941, to a low of \$1.8 billion in April, 1944. These, as well as the other figures to be mentioned, are the Federal Reserve Board estimates. As operators of consumer finance offices, you know that the amount of loans outstanding is controlled by changes in two factors: the rate of repayment, and the volume of loans put on the books. From 1941 to 1943 both factors were ad-

versely affected. The rate of repayment increased and the volume of loans made declined. The increased rate of repayment affected all segments of the consumer credit field in essentially the same degree. Some segments of the consumer credit field suffered much more drastically than others with respect to the volume of new business put on the books.

Because there was no automobile production the volume of credit granted by automobile dealers fell drastically from \$283 million per month in the first half of 1941 to \$39 million per month in the first half of 1942 and to \$18 million per month in the first half of 1943. Thus credit granted in the first half of 1943 was only 7% of the amount granted in 1941.

If we compare this decline in volume of credit granted by automobile dealers with the decline in outstanding balances of automobile instalment sale credit, we find that they are exactly the same. Automobile instalment sale credit outstanding, at its lowest point of \$167 million in March, 1944, was exactly 7% of the peak volume of \$2,320 million of August, 1941. It appears clear that the basic and outstanding cause of the sharp decline in instalment sale credit was the absence of automobiles and other durable goods to be financed. This decline in outstandings would have occurred to an almost similar degree, if there had been no Regulation W.

We can contrast this with the experience of consumer finance companies. Their volume of loans granted fell from an average of \$80 million per month in the first half of 1941 to \$68 million in the first half of 1942 and to \$63 million in the first half of 1943. In other words, the volume of loans granted in the first half of 1943 was 79% of the 1941 volume.

In the case of consumer finance companies, however, outstanding loans declined more than the volume of loans made. Outstanding loans of consumer finance companies, at the lowest point of \$346 million, in October, 1943, were 65% of the peak of \$534 million in August, 1941. Thus, it appears clear that the basic and outstanding cause of the decline in outstandings of consumer finance companies was the increased rate of repayment.

The rate of repayment of loans, as shown by Household's records, was almost 60% faster in 1943 than before the war. This was the result of a number of factors: (1) the 12-month maximum maturity fixed by Federal regulation for instalment loans; (2) the high wage incomes of most consumers, enabling them to repay faster; (3) the uncertainties regarding the future, including the possibility of military service, which caused many people to make an unusual effort to put their financial affairs in order; (4) the absence of consumer goods in the stores, which eliminated normal avenues for spending money.

It is difficult to say which of these factors was the most important, and to what extent each contributed. It seems clear that customers, of their own volition, would not have chosen the 12-month maximum maturity, which was fixed by Regulation W. On the other hand, our records show that the rate of repayment started to increase early in 1941, prior to the imposition of controls, and thus reflected both the higher incomes and the uncertainty which

*An address by Dr. Dauer before the New York State Consumer Finance Association, New York City, May 16, 1951.

³ A copy of my talk "Can Inflation be Controlled?" before the Chicago Chapter, American Statistical Association, March 28, 1951, can be supplied upon request.

caused people to attempt to put their financial affairs in order.⁴ Also, consumers had the higher incomes which enabled them to meet, and even exceed, the rate of repayment required under the Regulation. If that had not been true, our records would have shown a sharp increase in delinquency, and in what we call renewal loans; namely, those on which the terms of repayment are extended as a result of the inability of the borrower to meet the original terms. It is significant that this did not occur.

The absence of consumer goods in the stores not only increased the rate of repayment of loans, it also decreased the demand for loans. There was a reduced number of applications for loans for the purchase of clothing and of home furnishings. In addition, with avenues for the spending of money closed, there was a reduced need for loans for the consolidation of debt. This was reflected in the number of loans made for that purpose.⁵

Expected Change in Outstandings

Now, what can we expect of loan outstandings in the next year or two? Let us look first at the volume of business put on the books and then at the rate of repayments.

There seems to be every expectation that the demand for consumer credit will not decline as drastically in the next year as it did during the comparable period in World War II. Production of autos and other durable goods for all of 1951 and early 1952, though reduced from the peak 1950 outputs, will still be very high in terms of prewar levels. Relatively little decline in nondurable goods output has been indicated. Thus, there seems to be good reason for believing that credit granted by sales finance companies, by department stores and other retailers, will continue at a level not too far below that of 1950 or 1949. Under those circumstances, credit granted by consumer finance companies for consolidation of debt, and for those other purposes which arise through the inability or unwillingness of wage earners to manage their money, will not show a material decline. The continued availability of a large volume of consumer goods in the stores will result in continued spending. Thus, liquid assets will not be built up by consumers to such a degree as to reduce sharply the demand for credit for emergency purposes. Of course, with the continued increase in consumer incomes, and a degree of reduction in consumer goods, some increase in savings will occur.

Unless consumer finance com-

panies restrict the size of loans, the average size of loans should continue to grow, despite controls, in adjusting to the increase in the price level and in incomes which has occurred and will continue.⁶

The rate of repayment of loans can be expected to be somewhat higher in 1951 and 1952 than in the first half of 1950. This is the result of the same factors, of course, which increased the rate of repayment during World War II, except that they will not operate to the same degree: (1) High incomes of consumers are enabling them to repay loans faster than contractual maturities require, but the inducement to do so is less, so long as normal avenues for spending money remain open substantially; (2) Although the future is uncertain, the contemplated increase in military forces is not large as compared with World War II, and will affect a younger segment of the population, most of whom are unmarried and do not have financial obligations. Thus, we can expect less effort, today, to put financial affairs in order; (3) The maximum maturity under Regulation W is now 15 instead of 12 months.

To summarize, if Regulation W remains at 15 months, with no change in its exemptions or other important provisions, the outstanding loan account in the consumer finance industry will probably not decline by more than 6% during the next 12 months. Thereafter, during the last eight months of 1952, there might be a further decline of as much as 3%. Since the outstanding loans of consumer finance companies increased about 16% from the end of 1949, to the end of 1950, it appears reasonable, then, that the average monthly outstandings for 1951 will be 5-6% higher than they were in 1950. In making these estimates, I have assumed that the degree of competition with other segments of the consumer credit field will not change materially. I will refer to the question of competition at some length a little later.

Thus, the continuance of a high level of civilian production, along with defense mobilization, underscores and emphasizes the importance of the consumer finance industry in the economy. The industry must be prepared to meet the need for temporary use of cash credit for the usual causes:

(1) To offset the loss of income due to illness or temporary unemployment bringing about an accumulation of unpaid bills;

(2) To meet large unforeseen expenditures, such as medical, dental and hospital bills, or to assist relatives;

(3) To adjust modest budgets upset by rising costs of living and taxation;

(4) To compensate for failure to save for periodic expenses; and,

(5) To take advantage of opportunities to make money or improve the family standard of living.

In addition, the consumer finance industry today must be prepared to provide cash promptly for those unforeseen expenditures which are the result of dislocations due to defense mobilization and necessary shifts in industry.

Effect Upon Income and Expenses

Let us turn now to a consideration of the effect of controls, government regulations, inflation, and mobilization upon the income statement.

Gross Income. As you know, the amount of gross income will be determined by the amount of

loans outstanding, and the rate of gross income from loans. There is no reason why the rate of gross income should be subject to depressing influences at this time. With average monthly outstandings 5-6% higher than in 1950, the amount of gross income in 1951 should be similarly increased.

Operating Expenses. The dollar amount of some expense categories is almost certain to increase as a result of rising prices. Thus, the operating expenses will take an equal or larger proportion of gross income.

Salaries are the largest expense item. Average hourly earnings of factory employees increased 10% in the year ended Feb. 28. Since average hours worked also increased, average weekly earnings increased about 12%. So-called wage control is not going to prevent a continued increase in hourly and weekly wage rates. The existing wage formula provides for a 10% pay raise above the Jan. 15, 1950, level. But agreements for raises exceeding 10% have been reached by unions and management in more than 1,000 cases, subject to approval of the Wage Stabilization Board. It is safe to assume that the Board will continuously find ways to break the 10% formula. Consumer finance companies could hardly resist an appropriate increase in salary rates, under such circumstances.

Advertising rates, commercial rents, and all other general forms of operating expenses will probably increase to reflect the impact of inflation on prices.

The high level of employment and high consumer incomes will probably cause the rate of bad-debt charge-offs, after recoveries, to decline as it did during World War II.

Net Income Before Taxes. On balance, I would expect the dollar amount of net income before taxes of licensed lenders in New York State to be about the same in 1951 as in 1950.

Federal Taxes. The rise in Federal tax rates has again made taxes a close rival of salaries as the largest charge against income. In fact, in some companies, all forms of taxes paid in 1950 exceeded salary payments. If Congress votes an increase in taxes of any kind this year, political considerations will probably dictate some increase also in corporate income or excess profits taxes.

Net Income Before Interest on Borrowings. As a result, then, of higher taxes, net income of licensed lenders in New York will be materially less than the 1950 return of 6.5% of average used and useful assets.

Interest Rates. Lastly, among the charges against gross income, what about interest rates? Federal Reserve anti-inflation efforts have brought about an increase in commercial bank rates to prime borrowers from 2% to 2½% within less than one year. There seems little likelihood that money market conditions will become easier.

The need for credit to finance the direct mobilization program will become greater as time goes on. Commercial bankers, investment bankers, and insurance companies will be anxious to provide such credit. However, the bankers and insurance companies are aware that the degree to which they are cooperating in the Voluntary Credit Restraint Program, set up by the Federal Reserve, will be judged by what happens to the total amount of outstanding credit.

They know that if that total goes up, the Federal Reserve will press Congress for additional powers with which to curb credit. Thus, it seems probable that these credit institutions will not look with favor upon an increased use of credit by the consumer finance industry.

Proposals for additional powers of the personal cash loan field which they can serve most effectively.

There is an area of the consumer credit field, including all of the smaller loans, but more particularly determined by the character of the borrower, by his income and his needs, which consumer finance companies, alone, can effectively serve.

Banks cannot effectively serve that area for several reasons: (1) such loans require a higher rate of charge than is usually allowed banks; (2) the bank is distinctly limited in the degree of risk which it can take, since its primary responsibility is to its depositors. From them it received 90% or more of its funds, largely on a demand basis.

There is a relatively small area of overlap in which the two types of institutions appropriately compete. It has been variously estimated that banks would wish to, and could effectively, serve from 5 to 10% of the loans which consumer finance companies make.

The realization that there would be a decline in the volume of retail instalment paper has prompted the consumer credit officials of commercial banks to review the personal cash loan field. At the Consumer Credit Conference, held by the American Bankers Association in Chicago in March, bankers were urged to become more active in the field. Mr. John Galvin, Vice-President of the Marine Trust Company of Buffalo, in his address, pointed out that his bank has reinaugurated a program to train all branch employees to make unsecured personal loans. Among other things, every new employee is told to go out and apply for a loan from a consumer finance company, in order to learn the techniques of interviewing prospective borrowers.

We may expect increased aggressiveness from commercial banks in the area of overlap. Some individual banks may go further. They may seek to take on uneconomic loans, loans which are too small or which are too expensive for them to handle profitably. Some banks may attempt to secure such business temporarily, feeling that it will help carry the overhead of established consumer credit departments. How successfully consumer finance companies in New York City, in New York State, and throughout the country, can meet such competition, is a question I cannot answer. It depends, in part, upon the banks, but it also depends upon us.

"Tapeworm" Appears In San Francisco

SAN FRANCISCO, Calif.—The San Francisco "Tapeworm," humorous publication of the San Francisco Bond Club, issued in conjunction with the annual party, is now being distributed. The paper contains satirical articles, pictures and advertisements prepared by members of the club.

The "Tapeworm," which has appeared annually since 1929, is published for the Club by the San Francisco "Examiner." Editor of the "Tapeworm" is Benjamin Brindley, Vice-President of Blair, Rollins & Co. Incorporated. Ed Goetze, Frank Knowlton & Co., is art director, and Carl Wakefield, general manager.

Porges to Admit

Porges & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, will admit Mildred P. Arnold to partnership on June 15.

⁴ Cash collections, as a percentage of loan account, increased slightly early in 1941, before the imposition of controls. It increased sharply beginning in 1942, when the 15-month, and shortly thereafter the 12-month, maximum maturity became effective. The percentage of cash collections continued to rise, as the loans with shorter maturities became a larger proportion of the outstanding loan account, until there had been a complete turnover of the shorter maturities, namely, in the middle of 1943; thereafter, it declined very gradually. After maximum maturities were lengthened to 18-months, in October of 1945, the percentage of cash collections to loan account dropped sharply for several months. It again dropped sharply when regulation was removed in the fall of 1947, dropping gradually thereafter ever since, except for a very temporary reversal in the spring of 1949, which reflected the imposition of a 15-month maximum maturity in September, 1948.

The number of accounts closed through cash payment began to move up as early as March, 1941, and rose sharply after May of 1942 continuously until the middle of 1943 when the cumulative effect of the several reductions in maturity had been reflected. Thereafter, the percentage of accounts closed by cash payment declined gradually, but reasonably consistently, until early 1947.

⁵ Loans for the purchase of clothing were quite a bit lower in 1942, 1943, 1944 and 1945; the usual seasonal variation, with highs in April and December, continued. Loans for the purchase of home furnishings were also quite a bit lower from 1942 through 1945; the usual sharp seasonal peak in December was less pronounced in 1942 and 1943. Loans for the consolidation of overdue accounts were noticeably lower in 1942 and 1943.

⁶ This would be consistent with the experience in World War II. The average size of loans made, which had been rising until 1941, flattened out from 1941 to 1943 and has been rising since. The average amount of loans made to new borrowers declined somewhat during 1942 and began to rise in 1943. Thus the larger repayments required by the shorter maturities under regulation seemed to affect the size of the loan granted somewhat, but not materially.

The Outlook for Our Garrison Economy

By A. W. ZELOMEK*

Economist, International Statistical Bureau, Inc.

Economist warns retailers that although dollar volume will forge ahead, profits will be strongly influenced by manner of handling sharply rising cost factors. Predicts supplies of soft goods will remain ample, with demand for them strengthening from here on.

Retailing in a garrison economy is a very interesting and provocative title.

It is also a title that can get the speaker into a great deal of trouble. However, I have no one to blame but myself, and I think the subject is interesting enough to justify the risk I may be taking.

Obviously any change in the economy is going to create new problems for distributors. Sometimes we become so concerned with these new problems that we forget that there has been no relief from the old ones.

My first point to you, therefore, is that you will be relieved of none of your old duties or responsibilities. In fact, the importance of carrying these out with increased effectiveness and efficiency merely becomes greater.

What the Garrison Economy Will Be Like

It is important that we have a clear picture of what the garrison economy is going to be like.

This, of course, requires looking into the future. I won't pretend to you that we can look with absolute clarity into the future, because none of us has as yet found a perfect crystal ball.

You will agree with me, however, that it is better to have a definite concept of future prospects, even though it may have to be revised from time to time, than to go along on a rule-of-thumb basis, making new decisions every day.

The garrison economy as I will describe it to you is, I believe, about the way it will work out according to present defense schedules.

Let me say right now that these schedules will be carried through, no matter what happens in Korea. What I am describing to you, therefore, is the minimum prospect.

It is quite possible, even probable, that new developments will cause a further increase in military budgets and military production. The extreme situation, of course, would be an actual outbreak of war. Although I believe the probabilities are against this during the next year, it is a possibility that cannot be eliminated from our thinking.

The garrison economy on a minimum basis will be something like this:

Defense production and spending will reach a peak sometime in 1952, probably in the second half of the year.

Defense spending at the peak will not be far from an annual rate of \$70 billion. That is almost three times the actual rate during the first quarter of this year.

Dislocations of civilian supply will begin to develop in the second half of this year and will be



A. W. Zelomek

a characteristic part of the civilian economy throughout 1952.

These dislocations will involve chiefly a curtailed rate of production for automobiles, new homes, appliances and most other hard lines, particularly those using metals.

These shortages will not be as extreme as those of the last war period. In fact, there will still be a reasonably good supply of hard lines, in terms of actual needs. By "needs" I mean what the public could comfortably get along with.

But the purchasing power in the hands of the public will keep on going up to new high levels, and the public will want to spend it. In relation to demand, therefore, there will be definite shortages of most consumers' goods using metal.

Even so, the distributor will have to be careful. Government policy so far has been to limit the consumption of metals, but not the production of end products.

This means that every manufacturer can use his own ingenuity in substituting one material for another, to maintain total output.

From the distributor's viewpoint this means, if not a deterioration, at least a substantial change of quality for many of these items. In some cases this is already apparent; and it will become much more apparent later in the year.

I believe, personally, that before 1952 is over, consumers will have adjusted themselves to this change and will be taking up the full supply of this new ersatz merchandise. But I very much suspect that the public will balk at first, and that this will have an effect on hard line sales, possibly later this year.

This creates a peculiar and difficult position for distributors.

Over the next 18 months, I believe you can expect shortages of hard lines in relation to the potential demand. But quality will be going through a transition period; it is impossible to say ahead of time which items will be readily accepted and which ones won't. So distributors, for the time being, must follow a policy in which liberalism and caution are mixed.

You can buy liberally where quality is up to par; but you will have to proceed cautiously, testing as you go along, where substitution has made considerable progress.

I might point out here that these dislocations in civilian supply will be caused not only by increased defense spending, but by the high level of business spending on new plant, machinery and equipment.

Bigger Supplies in 1953

This big plant expansion program, which will intensify the squeeze on hard lines in 1952, will lead to an increase in supply in 1953.

New plants will be in operation then, and total capacity of American industry will have experienced another enlargement.

If the garrison economy follows the present schedule, there will be a declining demand for military hardware, beginning some time in 1953. Metals and manpower can then be diverted back from military to civilian output.

However, this point is some distance ahead. It is rather point-

less to speculate now on the effects this would have on economy and on the position of retailers.

Soft Line Supplies Ample

Supplies of most soft lines will be ample throughout the period of the garrison economy, as I am describing it here.

However, the demand for soft lines will be a lot stronger from now on than it has been in the period since the invasion of Korea.

There was a lot of speculative buying in textile and apparel markets last fall, production advanced rapidly, and in most of these markets excesses appeared early this year. We have just been going through a period of liquidation and digestion.

This period of liquidation is just about over.

Unit volume at retail has begun to improve, under the stimulus of active promotions and good values. On the other end of the scale, a certain amount of mill curtailment has developed. Seasonal factors are also becoming more favorable since retailers will have to begin operating more actively for the fall season within the next 30 to 60 days.

As we get into the fall retail period, and even more as we get into 1952, the declining supply of durable goods will create some excess purchasing power, part of which will go into soft line purchases. Thus the demand trend for soft lines should strengthen later this year, and should be quite active in 1952.

In these markets generally, however, you will probably not encounter serious over-all shortages. Military buying, geared to the needs of an army of 3½ million men, will be proportionately smaller than it was during the last war.

In terms of total textile capacity, military orders on an annual basis should never take more than 12% of cotton, 5% of rayon, and 20% to 25% of wool fabric output.

There will be times, of course, when procurement officials may schedule deliveries in a short period of time and thus exceed the estimates stated above.

Similarly, there are some types of fabrics, like ducks, fine goods, high-tenacity rayons, and nylon, where the percentage of military takings will run much higher. On the whole, however, there will not be a serious encroachment on the civilian supply, and the capacity of these industries, as you all know, is very great.

How to Operate

What I have said so far sketches in the general background of the garrison economy, at least from the economic viewpoint.

In addition to these distortions in economic relations, there will also be government controls, particularly price controls, which will influence your operations.

I would like to take the rest of my time to outline four or five areas where it will particularly pay you to be on your toes.

Price Controls

You are already under price controls, have gone through your calculations, and know what the present regulation implies for your markup. There are only a couple of things I would like to say in addition.

First of all, in current operations, your buyers and merchandising staff should have a full and complete knowledge of your most profitable cost brackets in your pricing charts.

As they go out into today's markets they should make every effort to get merchandise landed in your store at the cost that is most favorable for your mark-up.

Fortunately, there has been a certain amount of weakness in many of the wholesale markets during the past month or two. It has been possible to buy advantageously in this respect, and in

many cases it is also possible to write some orders for forward delivery, for the fall season, which will come in at a favorable cost.

I suggest that you make every effort to work out programs of this sort with your important sources of supply. It will be more difficult to do this later on, when these markets tighten up, and any progress you can make at the moment will be worthwhile.

Looking beyond the near future, I am sure you realize that there is a built-in squeeze in the retailer's price regulation. This is hidden in the words, "OPS adjustment charge." You are not allowed to count "OPS adjustment charges" as a part of the invoice price.

What this means is that OPS can, at a later date, grant a price increase to a manufacturer, but tell him to separate it in his invoice and label it as an "OPS adjustment charge." You would then have to absorb it.

The problem is academic at the moment, but may become important later on. I mention it now, since the possibility emphasizes some of the other points I want to make.

Cost Factors

It is obvious that your profits are going to be influenced very greatly by how you handle cost factors.

Taxes are high and will be going a little higher. Average markup for most stores is being reduced, at least moderately, by the present price regulation, and they may be reduced even more at a later date, as inflationary pressures revive.

At the moment, your dollar sales will continue to show gains, and these, on the whole, will be greater than any increases in unit volume.

I wish I had a sure-fire, quick and easy formula that would enable you to get your costs down. I do not have, however, and I have not found, among all my good friends in the retail field, any who have solved this problem to their satisfaction.

Obviously you should give further attention to the costs involved in the physical handling of merchandise.

If your warehouse is not in a high state of efficiency, it will pay you to put it there.

If your arrangement of store stocks is not the most convenient, from the manpower viewpoint, than a rearrangement is in order.

Since you will probably have to pay higher wages to your entire staff, you must make every effort to increase both buying and selling efficiency.

On the buying side, alertness, intelligence and hard work will be more than ever necessary.

On the selling side, the problem may be even more difficult, because it is broader and involves coordination of many activities. Obviously, your promotional efforts help your sales staff to sell more goods. I know that you do not ordinarily think of promotion and advertising as an aid to reduction of selling costs, but the point might be worth keeping in mind.

Aids to increase selling efficiency may also be found in the arrangement of merchandise, with the view of stimulating multiple sales.

I know this is not a new idea, but I also know that some stores had done much more with it than others.

I think it might also pay you to rate your departments against the city, where you have the figures to do this.

Every store is strong in some departments and weak in others. Sometimes there are good reasons why this should be the case. A careful examination of your own strengths and weaknesses, however, is in order.

This point, about bringing weak departments up to par may be a

little confusing. It is quite obvious that it will improve your sales showing against your local figures. My point, at the moment, is that any basic improvement in sales is almost bound to bring some improvement in selling cost factors.

Personnel

Any battle with costs, which results in a victory for the store, has to take into account the human element.

It is not possible for a retailer to go out into his plant with a stop-watch, time operations, rearrange them, and set up standards for personal efficiency.

On the contrary.

You will probably walk through your store and see some of your buyers with their feet on their desks, and some of your sales people manicuring their nails or staring out the window. Don't jump to the conclusion that these are bad signs.

Your buyers have a lot of thinking to do, and everyone has to do it in his own way.

Your salespeople are going to be under pressure from your customers. In some cases it will be better if they reduce their emotional pressure by gazing at nothing for five or ten minutes at a stretch than by blowing off steam with a customer.

What I am getting at here is that you must have some way of measuring results, in buying effort and in selling effort. You must, of course, have some way of rewarding good results and of penalizing bad results. I caution you against a superficial inspection of your plant. This is a basic problem which involves even one who works in your establishment, and it will require a lot of thought on your part to get a satisfactory solution.

Flexibility in Management Functions

Flexibility is a word that I think we should pay some attention to. You people in my audience are chiefly management people. This means that the inspiration in your own operation has to come from you.

I have tried to outline certain guides, based on prospects for the economy as a whole, highlighted by some of the important internal problems that you will encounter.

I realize fully that I have not been able to give you a blueprint which is letter perfect, and which you can take home and follow.

It is impossible to do this.

The most that management can expect is a general outline of this sort which establishes a reasonable perspective in which you can tackle your internal and operating problems.

What this means is that you must have flexibility, and that you must be able to transmit this feeling on down to the lower levels without impeding the progress of programs that are already in the works.

For example, it should be quite plain, from what I said earlier, that the general background I have described to you can be very substantially changed if there is some new incident abroad. This is obvious. But merely because it is so obvious, I think it necessary to emphasize the importance of keeping this possibility in your thoughts.

However, the need for flexibility is not limited to that. Let's assume that general conditions will develop exactly as I have described them. Even so, there will be sudden changes in individual markets which would influence your buying; and sudden shifts in consumer demand, to which your selling and promotional staff will have to be alert.

For instance, although I have great confidence in the estimates I gave you as to the total amount of government takings in different fields, when we get down to in-

*An address by Mr. Zelomek before the Pacific Northwestern Retailers Clinic and Conference, Portland, Ore., May 16, 1951.

dividual items there will be sudden and unpredictable changes.

Potential Demand for Durables

In selling, I have pointed out a general transition in favor of soft lines. You must realize, however, that for some reason we cannot now foresee there may be another period in which consumers will again rush in to buy durable goods.

Even in the case of government regulations, flexibility will be required. Inflation control so far has involved a considerable degree of shadow boxing. There is no guarantee that the present intentions of OPS, to squeeze business profits, will be fully carried out if a full-scale war does not develop. But the attitude of OPS and the actions of Congress, and the nature of the many controls under which you will operate, will be influenced by developments that none of us can forecast in advance. It may be much better, or it may be much worse, than it is now.

Conclusions

My allotted time is just about spent at this point.

I would like to come back briefly to the first point that I made, that retail management still faces all the problems and responsibilities that are normal; and that it must take new problems and responsibilities in its stride.

Your primary motives are essentially those of self-improvement. Most of you represent stores of substantial scope, and self-improvement involves a strengthening of weak points.

External conditions are both a handicap and an advantage. Your dollar volume will forge ahead, but your costs will probably go up. Your problem, therefore, is to combine the utmost efficiency in buying and merchandising, with a consistent and general sharpening up of internal operations.

I know a great many retailers. We work very closely with many of them, and we have many friends in the field. From the vantage point of this experience, I can say quite frankly that I have never yet met a retailer when he was not disturbed about some serious problem, either internal or connected with the general economy. But I can also say that I cannot recall a case where the retailer has not met this challenge, and met it with a high degree of success.

I think I am safe in saying, therefore, that the garrison economy will be a most interesting period for all of you because it certainly does constitute a challenge.

Bond Club of Buffalo Annual Outing June 8

BUFFALO, N. Y.—The Bond Club of Buffalo is holding its annual outing at the Wanakah Country Club on Friday, June 8. Valuable prizes will be awarded to participants in the golf and tennis tournaments planned. This year a cup is being awarded by Edward Cornelius of Edward Cornelius & Co., Inc. as a golf prize. An invitation is extended to out-of-town dealers and brokers to attend.

The committee consists of Edward Wunderle of The Liberty Bank of Buffalo, Chairman; John Kraus, Manufacturers and Traders Trust Co., and John Lautz, Trustee, Collins & Co.

R. N. Newman Opens

NEW ORLEANS, La.—Robert J. Newman has opened offices in the Hibernia Bank Building to engage in a securities business. In the past he was a partner in Newman, Harris & Co. and H. W. Newman & Co.

Public Utility Securities

By OWEN ELY

Columbus & Southern Ohio Electric Company

Columbus & Southern Ohio Electric Company serves an area in and around the City of Columbus with an estimated population of 515,000, and also a southern area in Ohio with an estimated population of 230,000. About 78% of revenues are derived from the Columbus area. The company's electric system is interconnected, with the exception of the City of Delaware and surrounding area, which are scheduled for interconnection this year. Columbus, with a population of about 375,000, is the State capital, the home of Ohio State University, and a retail trading center for the surrounding suburban and rural area.

Industry in the Columbus area is well diversified, and plants are mostly moderate in size. The company's largest industrial customer is a natural gas pipeline, which contributes about 2.5% of total electric revenues, and the second largest a metal bearings company, contributing 1.5%. The southern area is chiefly rural in character. The company thus differs from other Ohio companies in having a relatively high residential and rural business (41% of revenues) and low industrial revenue (26%). Toledo Edison has 43% industrial, Cleveland Electric 52%, Cincinnati Gas & Electric 44%, Ohio Edison 35% and American Gas 43%.

Columbus & Southern Ohio Electric generates almost all of its steam power, buying only 2%. About one-third of total capacity has been installed since the war and over half since 1938. The latest 40,000 kw. generator (one-eighth of the total 320,000 kw. capacity) commenced operation in August last year, and a similar unit (at the Poston Station near Athens) in the previous year. Construction has been started on another unit of 60,000 kw. at the same plant, scheduled for service in March next year, while another 60,000 kw. unit is on order and scheduled for service in 1953. When these two installations are completed over half the capacity will be of modern postwar type. The capacity figures given above are based on name-plate ratings, and modern units can usually generate at least 10-20% more than the name-plate rating.

The company's revenues in 1950 were 83% electric, 17% transit and less than 1% heating. Like some other Ohio utilities, the company has had municipal difficulties. For some time the City Council of Columbus permitted the company to earn a generous return on the electric rate base, in order to continue the nickel fare on the transit system. Several years ago, however, the City Administration decided that the time had come for both the electric and the transit operations to "stand on their own feet." The company was asked to cut electric rates very sharply, and the company also had some litigation with the city over interpretation of an old rate ordinance.

In the fall of 1949 the city attempted in effect to freeze the nickel bus fare (5 tickets for 25 cents or 6 cents cash with free transfers) on a five-year basis. In the meantime the company had sold, leased and sub-leased the transit facilities to a newly-created subsidiary, Columbus Transit Co. The latter company filed suit to have the ordinance declared confiscatory and was allowed by the court to charge a temporary higher fare. On June 1, 1950 the court held the ordinance void but the city passed a second ordinance of the same character and another suit was filed, in which the court issued a preliminary injunction on May 17, 1951, preventing enforcement of the provisions of the second ordinance pending final disposition of the case by the court. On May 21, 1951 the City passed a third ordinance setting a fare of six tickets for 50 cents, 10 cents cash, to be effective June 20, 1951. On May 21, 1951 Transit Company announced a straight 10-cent fare to be effective May 23, 1951. The Transit Company has been losing money on the fare of seven tickets for 50 cents and would lose money on a fare of six tickets for 50 cents, 10 cents cash. It may discontinue service unless relief is obtained. Operations in 1950 resulted in a net loss of \$160,000.

The parent company will not make any further cash advances to the transit subsidiary. It is, however, providing a reserve in the amount of transit losses incurred since Nov. 1, 1949. The company is anxious to dispose of the bus subsidiary but has been unsuccessful thus far and is considering the feasibility of distributing the stock to its own stockholders, or of selling the subsidiary to the municipality.

In the meantime, however, a complete agreement was reached on electric rates last year. The settlement ordinance retroactively reduced rates, and the company expects this summer to refund the excess amounts previously collected, amounting to about \$1,060,000. Without describing the new ordinance in detail, it is estimated that 1950 electric revenues if calculated at the new rates, including adjustments made (or under consideration) in the system outside of Columbus, would have been about 5.5% less than with the old rates, and operations for 1950 reflect the major part of this reduction.

Share earnings have been as follows in recent years:

Year	Amount	Year	Amount
1950	\$2.30	1945	\$2.20
1949	2.57	1944	1.25
1948	2.07	1943	1.46
1947	2.22	1942	2.00
1946	2.17	1941	1.38

President Poston, in a recent talk before the New York Society of Security Analysts, estimated that on the increased number of shares (1,700,000) and with a 47% Federal tax rate, 1951 earnings might approximate \$2.03; with a 50% rate, the amount would be \$1.92, and with a 55% rate, \$1.73. The percentage payout of the \$1.40 dividend on each of these bases would be 69%, 73% and 81%, respectively. The above figures do not include earnings of the transportation subsidiary which would be a loss figure. The EPT "shelter" is about \$2.20 on the new number of shares. The President indicated that there would be no dividend increase under present conditions.

The company will spend a maximum of \$55 million for construction in 1951-53; the probable sources of these funds will be 55%-60% new debt, 25% new common stock, and the remainder

from internal cash. The common stock equity at the end of 1953 will, it is estimated, be around 29% or not very different from the present rate. Nearly \$4 million of common stock money has already been provided this year by the sale of 200,000 shares in April, and \$10 million of bonds will be sold later this year.

Gov't Primary Factor in Bank Deposits Rise

Dwight W. Michener, Director of Economic Research of Chase National Bank, says loans to Government, through purchase of its securities, was major factor in expansion of deposits in past 20 years. Holds credit controls to curb inflation places emphasis in the wrong place.

In a special memorandum, dated May 23, 1951, Dwight W. Michener, Director of Economic Research of the Chase National Bank of New York, points out the chief cause of the rise in bank deposits during the last 20 years has been the purchase by the banks of government securities, and despite the huge post-Korean expansion in business loans, the current volume of such credit is not greatly above the level of 1929. According to the Chase research specialist:

"In the current effort to retard the rise in prices, much attention has been centered upon controlling bank loans made to non-government customers who have been making every effort to meet the extraordinary demands placed upon them since the Korean outbreak. It is frequently pointed out that such increases in loans bring into being new deposits, thereby adding to the 'money' supply. Therefore it is concluded that, by voluntary or involuntary methods, this expansion of deposits must be terminated if prices are to be brought under control."

"It is true that bank loans to private business do increase de-



D. W. Michener

posit and cause the money supply to increase in advance of production of goods, but this approach to the problem of inflation places the emphasis in the wrong place."

"The major cause of the 20-year rise in bank deposits (the inflation) is the expansion of bank loans to the government in the form of government securities purchased. Government securities held by the banking system have declined from the wartime peak, but they still remain 16 times as large as in the late 1920s. Even after the extraordinary post-Korean expansion of bank loans to non-government borrowers, these loans are only moderately above the 1929 total."

"Judging from the record of the past two decades, expansion of bank deposits in the future, and the resulting problem of inflation, will be more dependent upon loans (in many cases unproductive) to the government, than upon loans to non-government borrowers."

Charles H. DeLoca With A. M. Kidder & Co.

(Special to THE FINANCIAL CHRONICLE)

FORT LAUDERDALE, Fla.—Charles H. DeLoca has become associated with A. M. Kidder & Co., Ft. Lauderdale National Bank Building. Mr. DeLoca in the past was in the investment business in New York City.

Harold C. Martens has also joined the staff of A. M. Kidder & Co.

Communism and Its Threat

"That our country is beset with external dangers I readily concede. But these dangers, at their worst, are ones of physical destruction, of the disruption of our world security, of expense and inconvenience and sacrifice. These are serious, and sometimes terrible things, but they are all things that we can take and still remain Americans."

"The internal danger is of a different order. America is not just territory and people. There is lots of territory elsewhere, and there are lots of people; but it does not add up to America. America is something in our minds and our habits of outlook which causes us to believe in certain things and to behave in certain ways, and by which, in its totality, we hold ourselves distinguished from others. If that once goes there will be no America to defend."

"I see no reason why we should not proceed on our course without either panic or complacency, recognizing our domestic Communists and their well-wishers for the genuine though limited problem that they are, but refusing to let this divert us from the greater problems we have before us or to lure us into reactions which threaten us with the loss of the national soul."

"The worst thing that our Communists could do to us, and the thing we have most to fear from their activities, is that we should become like them."—George F. Kennan on Communism here and abroad in the New York "Times."

There is a good deal in what Mr. Kennan has to say, but there is another very real internal danger—that we shall be led to suppose that communism itself, or something akin to it, would solve any of our problems.

Continued from page 21

Current Economic Trends And Their Implications

normal rate is 3%, with the surtax ranging from 17% on the first \$2,000 up to 88% on incomes over \$200,000, but with a ceiling of 77%.

This does not leave much room for expansion in the present rearmament emergency. In any case, the tax becomes a tax on capital rather than on income in all situations where the tax is levied on dollar income, which would not exist, if the taxpayer were allowed to deduct from income the loss in purchasing power of the invested capital which produces the dollar income. Failure to permit such deductions on bond investments results in taxation of grossly overstated or nonexistent real income—a tax on capital.

The tax on the net income of corporations (as defined by Congress) has likewise risen sharply over the years. In 1913 the tax was only a flat rate of 1% of net income. During World War I the rate rose to 12%, with a graduated tax on excess profits ranging up to 80%. In 1922 the excess profits tax was eliminated and by 1929 the normal rate fell to 11%.

In 1938 the rate was graduated from 14% to 19%.

During World War II the normal rate rose to 24%, with an additional graduated excess profits tax and an over-all ceiling of 80%. The excess profits tax was repealed in 1946.

Since then the average corporation paid 38% of its net income in Federal taxes until 1951, when the combined normal and surtax rate was raised to 45% and a new excess profits tax levied, with an over-all ceiling of 62%.

This rate again leaves little margin for increase in time of all-out war. Here also the tax has become a tax on capital. Wherever replacement costs of plant and equipment (or inventories) are higher than original costs, the prohibition against deduction of reasonable annual reserves to recoup these increased costs—limiting such reserves to recapture merely of original costs over the estimated number of years of useful life of plant and equipment—results in the taxation of grossly overstated profits and, in many cases, of nonexistent profits. The result, of course, especially in the heavy industries, where plant and equipment replacement costs today are 2 to 3 times original costs, is the rapid dissipation of equity capital, a result which, if permitted to continue, can have disastrous consequences to our entire economy. This already has happened in England, where during the war and later, under a Socialist Labor Government, the income tax has already destroyed a large portion of the accumulated capital of centuries.

The Financing of Past Wars

The Revolutionary War was financed chiefly by state and Federal greenbacks, which were irredeemable in gold or silver, and only to a minor degree by loans and state taxes. These greenbacks progressively became worthless. Prices soared in terms of the depreciating currencies. The 13 states by law established price controls with maximum prices first fixed at four-fold those of 1774, then eight- and ten-fold, and, finally, twenty-fold, but the spiral of inflation could not be controlled. In 1789, with the organization of the Federal government, a new (Federal) currency—redeemable in gold and silver—was instituted to halt the inflation. Both the Federal and state greenbacks were completely repudiated. Then

prices fell precipitously in terms of the new "hard money."

It should be noted here that repudiation had been practiced earlier by 12 of the 13 original colonies, which at one time or another had repudiated in whole or in part their earlier paper currencies.

The War of 1812-15 was financed to the extent of 43% by taxes and the balance by sale of government notes. The government had learned the lesson of greenbacks, the memory of which was still fresh from Revolutionary days, and used the device of monetization of the debt instead of irredeemable paper money. However, the government notes fell to a discount of 45 to 80% during the war. Wholesale and retail prices rose sharply—about 50%. They declined steadily over the next two decades to 30% below prewar levels, which already had risen sharply due to the Napoleonic Wars in Europe.

The Civil War was financed by taxes (and sales of Federal lands) only to the extent of 23%. The balance was financed partly by sale of government bonds—mainly to commercial banks—and partly by greenbacks, which were made legal tender by law, but were not convertible in gold or silver. These greenbacks fell to an extreme discount of 65% from par in 1864. After bitter debates during three political campaigns these greenbacks were finally redeemed at par by Congressional order in 1878—five years after the United States had adopted the full fledged gold standard, with all its money redeemable in gold on demand at \$20.67 per oz.

During the Civil War the Wholesale Commodity Index rose 113.5% (between 1858 and 1865), but slowly declined over the later years and in 1896 was 24% below the prewar level. Then it slowly rose and again reached the prewar level in 1913.

The Financing of World War I

World War I was financed by taxes only to the extent of 28%. The balance of its costs was financed by sale of \$25 billion of Federal bonds, a large portion of which was monetized by sale to commercial banks or by sale to corporations or individuals who then borrowed from commercial banks to finance their purchase. These bonds in the early 1920s sold for a while at a discount of as much as 18%, but later fully recovered to par.

These bonds contained a "gold clause" by which the Federal government contracted to redeem them in gold dollars of the same weight (or the monetary equivalent) as when the bonds were sold. More than \$20 billion of such bonds were, however, paid off in the 1930s in devalued (59c) and nonconvertible dollars. In 1933, Congress, at the request of President Roosevelt, outlawed the "gold clause" in both past and future contracts, and authorized the redemption of these bonds in a dollar which was unconvertible and had a theoretical gold value of only 59 cents.

This repudiation was sustained as constitutional in 1935 by the U. S. Supreme Court, despite earlier decisions of the International Court of Justice at the Hague and the British highest Court of Appeals in similar cases that such unilateral and retroactive repudiation was contrary to legal and equitable principles.

During World War I consumer prices rose 101%. The Wholesale Commodity Index rose from 100

in 1913 to 239 in 1920. It fell back to 150 in 1925 and to 138 in 1929. By 1933 it had fallen to 86. With the 41% devaluation of the gold dollar in 1934, the index rose to 126 in 1937, but by (August) 1939, it fell back to 107 (in terms of the 59c dollar). At this point in terms of the old 100c dollar it stood at only 63.5, which was 26% below the 1933 level (before devaluation). It appears that, except for World War II, prices in terms of the unconvertible 59c dollar would soon have fallen below the low levels of 1932-33 in terms of the 100c dollar! In fact, in 1939 some commodities already were selling in the 59c dollar at prices below those at which they had sold in the 100c dollar in 1932 before devaluation.

The Financing of World War II

Between 1933 and 1939 the Roosevelt Administration had done many things to impair the value of the dollar and artificially increase the money supply in an effort to finance its extravagances and waste, and experiment in socialist theories of managed currencies, price controls, and redistribution of income and wealth. In those years the seeds of economic chaos and inflation were planted. The reaping of the whirlwind came with World War II, and its full effects are now being felt. The Roosevelt Administra-

tion devalued the dollar 41% in terms of gold.

Partially remonetized silver further to dilute the money supply.

Operated on an unbalanced budget throughout its entire term of 12 years.

Increased the Federal debt from \$22 to \$46 billion in seven years—as large an increase as that occasioned by World War I.

Monetized a major portion of the national debt by sale of government bonds to commercial banks—the equivalent of the issuing of greenbacks—a step which could have been avoided merely by offering a fair interest rate to real savers.

Further monetized the debt by permitting use of Federal bonds as collateral for loans from Federal Reserve banks and for issue of Federal Reserve bank notes.

Repudiated the gold clause in government bonds and outlawed the gold clause in both past and future contracts, private and governmental.

Made all U. S. money irredeemable in gold (except at the discretion of the Treasury) and subject to progressive partial and possible total repudiation through inflation.

Established arbitrary and artificially high values for foreign currencies.

Drained away the gold reserves of foreign nations and forced them to managed currencies, and created a practical monopoly of gold in the United States.

With this background, the cost of World War II was financed by taxes only to the extent of 46%. The remainder was financed by sale of government bonds which contain no gold clause and are payable in irredeemable paper dollars which have become progressively less and less valuable. More than one-third of the total of the bonds—\$83 billion—was sold to commercial banks, thereby monetizing that portion of the new debt. These bonds then became the basis of sharp expansion in commercial bank deposits which constitute the major part of our total money supply. Today, the commercial and Federal Reserve banks hold about \$92 billion of these bonds out of a total of \$25 billion.

In 1945 Congress authorized the reduction of the legal requirement

of the gold reserve behind outstanding currency in circulation from 40% to 25%, permitting the issue of \$4 of Treasury Certificates (instead of \$2½) for every \$1 of gold bullion in the Treasury—again effecting an addition to our total money supply.

Effects of the Artificial Increase in the Money Supply

All these devices for arbitrary, artificial, non-productive increases in the supply of non-convertible money (without corresponding increases in the supply of goods and services) made monetary inflation inevitable and more readily effected than ever before in our history. These devices are more insidious than greenbacks, because the public is not so conscious that its money is being steadily diluted, whereas it would react promptly and effectively to the bald issue of even much smaller amounts of greenbacks.

The result, of course, has been a sharp and unnecessary rise in prices and a corresponding decrease in the value of the dollar and all fixed obligations payable in dollars. This result is inevitable in time of war or the present rearment period when the production of civilian goods and services may be reduced by as much as 50% at the very time when the value of money is being reduced by non-productive increases in its supply, after serious impairment of its quality (through devaluation and inconvertibility).

In 1933 the total money supply—demand deposits plus coin and currency outside of banks—was only \$19 billion. By (June) 1939 the Roosevelt Administration's policies had raised this total to \$39 billion! By (June) 1950 the total had increased to \$110 billion. In the following six months the total rose at an unprecedented rate by \$8 billion to a total of \$118 billion in early 1951, and the total is still rising! Since 1933 our total money supply has increased more than six-fold!!! The population has increased less than 25% in the same period! Our present money supply is about 2½ times that of 1940, while the physical volume of goods and services produced has increased less than 45% since 1940!

Price Inflation and Price Controls

Despite quickly established and strictly enforced price controls during World War II, under the impact of the sharp increase in the money supply and sharply expanded production, wholesale commodity prices rose 37% between 1939 and 1946. With the cancellation of price controls in the latter year, wholesale commodity prices soared in 1948 to 114% above their 1939 level. They fell back 8.5% by (December) 1949, but since Korea have soared again to an all-time peak, with a rise of 16% in the past 8 months.

Meanwhile, consumer prices rose 28% from 1939 through 1945, 71% from 1939 through 1948, fell slightly in 1948, and since Korea have soared to an all-time peak, rising 8% since (June) 1950 to about 78% above 1939.

Over the longer term, the 100-cent gold dollar of 1873-1933 has been seriously impaired by Federal monetary, fiscal, debt, and tax policies in vogue since 1933. The value of the 1914 dollar (in purchasing power) fell to 50 cents in 1920, as a consequence of the methods of financing World War I. By 1933, however, its value had risen to 78 cents. It fell only to 72 cents by 1939, despite the 41% devaluation and other inflationary devices of the Roosevelt Administration. But the full effects of these devices were felt in 1948 when the dollar became worth only 42 cents. Today, its purchasing power value is less than 41 cents. Since 1939 the dollar has declined in value 43%.

If, in the current rearment period, we continue the policies

of the past 17 years, it is not at all unlikely that we will have a 20-cent or a 10-cent or a 5-cent dollar at the end of the next decade. Price controls in every war have proven ineffectual. All foreign experience confirms our own record. Controls merely act upon the symptoms, not the causes of inflation. Even if controls are temporarily effective, unless the income generated by war or armament production is siphoned off by taxes or by sale of non-monetary bonds, as production of civilian goods decreases, the accumulated increase in the money supply forces a sharp spiral of inflation, once controls are removed, if ever.

The inflation records of European and Asiatic countries are clear. Most of their currencies have been completely destroyed during World Wars I and II by inflation which wiped out all savings of the lower and middle income groups, invested in fixed obligations, thereby paving the way for socialism and communism through national bankruptcy and economic and political anarchy. At that stage the only alternative to totalitarianism is a prompt return to the only sound currency known to man—the gold standard. Only by such a step can a free democratic society be reestablished. Already, our own capital savings—both individual and corporate—have been sharply impaired and are being rapidly dissipated. The rate will be accelerated under the current rearment program unless we quickly reverse our direction. Shall we wait until present policies take us completely down the "back road to communism," or will we insist upon the necessary change in course now?

Further Inflation Can Be Avoided

(1) **The Budget Can Be Balanced:** The Department of Commerce reports that our real per capita gross national product in 1950 was 34% higher than in 1940. This means a total increase of \$57 billion (above 1940) which can, if necessary, be spent for all government in the United States and still maintain our living standard of 1940. In that year we spent for all government only \$18 billion, which, added to the \$57 billion, gives us a potential \$75 billion for the Federal rearment budget without impairment of our 1940 living standards. Our present production is running about 10% or \$28 billion above 1950. Through a 48-hour work week and extra shifts we can probably produce \$7 to \$10 billion more. This would give us a total of \$110 billion for all government—sufficient to meet the \$90 billion maximum Federal Budget projected by President Truman and still provide \$20 billion for state and local governments, while maintaining our 1940 living standards, except for sacrifice of some luxuries and complete freedom of choice of consumer goods.

The Federal Budget can, therefore, be balanced—if there is the political courage to do so—even at the \$90 billion level, and we can, if we will, have both guns and butter, rather than one or the other, with living standards of 1940.

Senators Byrd and Douglas (both Democrats) and the Hoover Commission have demonstrated clearly that from \$4 to \$10 billion can be saved from present nondefense expenditures. Also more governmental services can be put on a self-sustaining basis, such as the Post Office, the River Valley Authorities, and new toll highways. Many public projects can be postponed. Doubtless also, economies in the defense budget alone and administrative efficiency in stockpiling, exchange of U. S. products for necessary defense materials (rather than giving them free to foreign nations) could save, per-

haps, as much as \$5 billion per year additional. Stockpiling, which has been grossly mismanaged, can and should be used to maintain reasonable prices at home and abroad rather than to drive them skyward by reckless bidding for scarce materials. A release of 5 to 10% of existing stocks from time to time will prevent spiraling or rigged foreign prices, and make possible substantial savings. Also from \$2 to \$5 billion of additional revenues annually can be salvaged by plugging loopholes of illegal tax evasion and legalized tax-exemption of business activities.

(2) *Encourage Expansion of Investment, Production, and Revenues by Tax Revision:* Our present Federal tax structure is overwhelmingly socialistic. It should be revised at once to preserve our free enterprise system. By doing so, we can also expand production more rapidly to combat inflation and at the same time increase revenues.

Past experience, logic, and equity require that the steeply graduated rates of the tax on individual incomes be limited to not more than 45 to 50%; that rates on the lower brackets—where the great bulk of national income is earned—be increased, but that all investment of savings from income be exempted from the tax. Various studies show that by such a program investment and production will be stimulated and revenue yields actually increased.

The tax on the income of corporations results in double and even triple taxation and in any case is an indirect tax on individuals, passed on to consumers. As it is levied today it is also a tax on grossly over-stated real profits and all too frequently a tax on capital, not on profits. In any case it is steadily destroying equity capital, forcing abnormal retention of earnings for expansion and replacement costs, and justifying governmental claims that industry needs government capital for expansion, replacement and modernization of plant and equipment. As the tax now operates, it is violently-socialistic, especially when an "excess profits" tax is added.

The tax on all corporate income and profits should be cancelled at once and a comprehensive system of excise taxes established, with lower rates on necessities and higher rates on luxuries. In Great Britain today the excise taxes range up to 100%. Excise taxes encourage taxpayers to limit their purchases to necessary items and act as effective substitute for ineffectual rationing and price controls.

The individual income and the national excise taxes, along with the present miscellaneous taxes, could yield sufficient revenues to balance the maximum Federal budget of \$90 billion. When the present emergency is over, the excise tax rates could be sharply lowered and the proceeds used to reduce the national debt.

The tax on individual incomes gives the flexibility which every tax structure needs and the excise taxes would give the highly desirable stability of revenues, which is now lacking. These two taxes would impose no greater burden on the lower income groups than our present system and emergency will require. The taxation of the higher income groups has long since reached the point of near-confiscation and long ago passed the point of diminishing returns. The only source from which substantial additional revenues can be secured for the rearmament program or war is the lower income groups which now earn between 80 to 90% of the national income.

The United States is the only major nation of the world which has not had a national sales tax for a decade or more. Thirty-two of our states and many cities now

use this tax. The nation can no longer afford to ignore the fact that without a sales tax, the present income taxes will eventually socialize our economy. In 1948 the income taxes produced 82% of our total Federal tax revenues, the personal income tax yielding \$21 billion and the corporate tax \$10 billion, and miscellaneous taxes \$11.5 billion.

The excise tax, as proposed, is essential, if we are to avoid further inflation, which is concealed taxation and results in haphazard confiscation of capital. It is indulged in by governments which do not have the political courage to tax fairly, logically, and heavily when occasion demands. Inflation is a levy on capital without reference to ability to pay and results in tax anarchy. It results in the total or partial depreciation of the people's money and of their savings in all fixed investments, payable in such money (bank deposits, insurance policies, mortgages, bonds, annuities, social security funds, pensions, etc.). Those who can afford to invest in more risky ventures through ownership of stocks and physical property (the prices of which rise as the value of the dollar declines) can, for a while at least, escape confiscation of their capital—until it is done directly by a socialistic or communistic government.

(3) *Monetization of the Federal Debt Must Be Ended:* The first and most vital duty of Congress—whether or not it balances the budget or revises the tax structure—is to put an end to all monetization of the debt in any form. Congress by law should ban any further sales of new issues or refunding issues of old bonds or notes to the commercial and Federal Reserve banks, either directly or indirectly. The Treasury should be compelled to offer interest rates sufficiently attractive to real savers to induce them to invest in government bonds (and hold them) in sufficient volume to absorb any necessary new bonds or the refunding issues of old bonds.

The recent action of the Federal Reserve Board in discontinuing the 10-year-old practice of supporting the government bond market at or above par is the first constructive action in the monetary field since 1933! It was a courageous step which was long overdue. It is to be hoped that the Board will not falter, but will hold to this policy and let Federal bonds find their own level on a free market and allow interest rates to become free once more. If a Socialist government in England can permit its bonds to sell at a discount of 30%, surely a free enterprise nation should encourage free markets.

In addition, Congress should once and for all reestablish the complete independent status of the Federal Reserve Board, as an agency of Congress and not the executive. It must no longer be a captive of the Treasury. Its functions should be clearly redefined. In this connection, the use of Federal bonds as collateral for Federal Reserve bank notes should be ended.

Finally, Congress by law should establish the present total money supply as a ceiling and prohibit the creation from this point of any new money of any kind whatsoever in excess of that ceiling. This action, at this time would do more to prevent further inflation than any other single action. In the longer term it will mean a slow, steady decline in the general price level, as technological developments year by year reduce production and distribution costs. This will slowly increase the purchasing power of all money, fixed investments, wages, and salaries and mean a steadily rising standard of living for all and not merely for privileged groups.

(4) *We should Return to the Gold Bullion Standard: The Gold*

Standard is a national as well as an international standard. Its primary advantages to a nation are internal advantages. No single step would do more to assure the people of the United States and the world that the United States will redeem its debts and its money in honest dollars and retain its system of free competitive enterprise than a return at this time to the gold bullion standard.

We have a majority of the world's gold. The present ratio of our gold stocks to our money supply is adequate to support the gold standard now. If we should lose gold for a time, it will soon come back as a result of our trade balance. Nor is there any safer place in the world than this country where gold can take refuge. Wherever it might go, it would be more subject to seizure by a communistic or socialistic government.

To return to gold now would do more than any other possible action to put a brake upon reckless Congressional or Executive spending. It is easy to appropriate or spend dollars that need never be paid off except in steadily depreciating or worthless paper, and quite another to appropriate or spend dollars or sell bonds that carry a promise of payment in a fixed amount of gold.

A return to gold now would revive full confidence in all government obligations, as well as in private bonds, mortgages, insurance policies, savings accounts, annuities, and pension funds, the value of which has been almost cut in half since 1940.

The present price of \$35 per ounce for gold is adequate. Reported higher prices abroad in artificially overvalued depreciating currencies on free or black markets are not fair gauges of true market value, especially when the United States holds more than 60% of the world's monetary gold stocks and stands ready to sell it abroad for all legitimate purposes at \$35 per ounce.

Last week in Switzerland a referendum was held in which the question was put to the entire Swiss electorate whether that nation should remain on its traditional gold standard (in the heart of Europe where no other nation is on gold), or should accept currency management and irredeemable money in its place. After a campaign of six months the national vote was 7 to 1 in favor of gold. The Swiss people are too close to nations (on both sides of the Iron Curtain) which have seen their free economies destroyed by monetary inflation and laid open to Statism. If a small nation the size of Switzerland in the heart of a great continent that has abandoned gold can steadfastly cling to it, surely the United States with its vast resources can return to gold before it is too late to avoid the fate of Europe. For that can happen here. It has already happened here to the extent of 50% in the past ten years. It will happen here unless we act soon to prevent it.

Two With McClure

(Special to THE FINANCIAL CHRONICLE)

TAMPA, Fla.—Edward J. Parker, Philip B. Stovin and Charles P. Woodbury have become associated with Louis C. McClure, 308 Tampa Street. Mr. Stovin was formerly with Security Associates of Winter Park.

Four With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Allan L. Chevlen, Arthur C. Keene, Jack H. Musliner and William L. Nestle have joined the staff of Bache & Co., 135 South La Salle Street. Mr. Keene was previously with Webber-Simpson & Co.

Hazards of Inflation Under A Severe Defense Economy

By THEODORE J. KREPS*

Professor of Business Economics
Graduate School of Business, Stanford University

Among the major hazards of an inflationary defense economy, Prof. Kreps lists and discusses: (1) Danger of supplanting democratic techniques by a garrison state; (2) danger that uncontrolled inflation may restrict production, engender social turmoil, and create subversive climate; and (3) danger that the tax policy may permanently injure economic productivity and military effectiveness, along with deterioration of skills and energies of our population. Holds high corporate and personal income taxes are shifted to low income masses.

Like our great revolutionary forefathers in the period from 1776 to 1815, we are living in a critical period that may last a generation. The imminent threat of war may rise and fall, though no one now has reason to fear that we will experience any such military occupation as occurred during the Revolution, or suffer defeats such as culminated in the seizure and burning of the Capitol in the War of 1812.

The economic problems of a long period of armed alert cannot be met by indiscriminate application of the techniques useful either in war or in peace. We cannot afford the luxury of thinking with our memories. New problems require new solutions. Nor can we find the way out of our predicament by carping criticism of one another or by searching out and condemning one another's economic and political sins. The way out lies along the road of patient cooperation and constructive creative innovation.

It is not enough merely to apply formulas that had a measure of success in World War II. Those that work well for a short period may fail utterly in a long period of less intensive effort. There is no solution of our long run economic problems in production for war. Neither can normal techniques of peace be indiscriminately applied. For example, in the emergency ahead we cannot afford to fight inflation by the traditional method of directing controls toward reducing the general level of employment and productive activity. Ours is the harder job of keeping down prices while expanding employment and production toward maximum levels.

Moreover, it is not enough merely to increase industrial capacity. Nor is it enough, in addition thereto, to develop natural resources with maximum speed and economy, and to direct public-works programs toward increasing farm output and industrial production. More is required. To promote productivity means above all developing and husbanding the most important resource which this country possesses: the potentialities, the skills, the loyalties of its workers, its farmers, and its businessmen, irrespective of differences of background, affiliation, status, and point of view. No nation can either be strong or prosperous in which groups mutually frustrate and exhaust each other by striving to gain position at the expense of the general welfare.

Amid the clamor of all the groups that make up the citizenry of this country, there are always a few impatient extroverts who lack the stamina to settle policy by the methods of patient consideration of differences in point of view, compromise, persuasion and the delays involved in securing the "consent of the governed." They want action, a czar, a definite policy, a leader. This is probably the besetting sin of those unable to endure the "intolerable toil of thought."

Under the pretext that "there is no time" the role of military men and military needs is drastically increased in the determination of government policy. The pressure for direct controls over the economy becomes ever stronger. Man-

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*An address by Prof. Kreps in "The Stanford Tuesday Evening Series" delivered at Stanford University, Stanford, Calif., April 24, 1951.

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Hazards of Inflation Under A Severe Defense Economy

power is drafted. Wages are fixed. Prices and rents are controlled. Priorities, defense orders, conservation orders, allocations, set-asides, limitation orders are issued in bewildering number from an increasing array of bureaucracies. Government orders mean economic life or death to more and more independent businesses while manpower needs cause millions of young men and women to drop all long range plans for education and entry into normal professional usefulness — waiting in uncertainty for the military bugle to blow.

From ancient Sparta and Rome up to the present no military society has ever been a free society. As an eminent group of businessmen organized as a Committee for Economic Development have so well stated in their notable pamphlet on "National Security and Our Individual Freedom":

"Our security program threatens our individual freedom. When we increase the share of our resources devoted to armament (scheduled now to be roughly 18%), we unavoidably enlarge the scope of Government in industry, in politics, in science and education, and in every sphere of life. Security measures uncurbed by the requirements of freedom, can undermine our free institutions . . . and lead us along a dangerous road—a road that ends in what has aptly been called a garrison state."

The evidences of such a garrison state which this Committee points to are numerous. It is reflected in peacetime Selective Service. It is shown by modern Alien and Sedition laws, treason trials reminiscent of Aaron Burr, close censorship over scientific and technical information, and substitution of military power for such more important non-military instruments of national security as diplomacy, economic aid and effective knowledge of the language and customs of peoples all over the earth, especially those who misunderstand and mistrust us. Only in a garrison state does might make right. Only in rare instances can a democracy risk action in the field of foreign policy on the basis of counsel obtained from skilled specialists in violence, however great their military prowess. Finally it is disturbing to note that even the granting of foreign aid is being hitched to our military aims and needs rather than to the goals and aspirations of the free peoples cooperating with us. Verily the garrison state is upon us.

The Second Hazard: Inflation

We can build a strong defense only with strong dollars. War and preparation for war are invariably inflationary, particularly so when made at the height of an already existing boom. In the period ahead, in spite of an increase in the Nation's real output of goods and services for fiscal 1951 of 9% above that for fiscal 1950, and an estimated further increase of almost 8% for fiscal 1952, inflationary pressures will be so great that present direct controls will fail to hold the price line unless there is an immediate substantial increase in Federal taxes. On the basis of the President's total cash budget of almost \$75 billion for fiscal 1952, excess consumer and business demand could reach over \$16 billion in 1952. Even if the most optimistic estimates of reductions in Federal expenditures such as those of Senator Byrd should be realized, excess funds in the hands of con-

"Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. . . . Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of the destruction, and does it in a manner which not one man in a million is able to diagnose."

It is significant that, "almost without exception, every country suffering a run-away inflation in recent years has not only had rigorous laws on the books providing for direct controls over prices, wages, and materials, but virtually astronomical interest rates and drastic penalties for non-compliance."

This fact has been extensively documented in a study made for the Joint Committee on the Economic Report by the Federal Reserve Board and published this spring as Part II of its study on "The Economic and Political Hazards of An Inflationary Defense Economy." A portion of their findings with respect to China may well be in point. I quote:

Inflation represents at present probably the greatest single deterrent to increased production, both military and civilian. Inflation has not only knocked a hole in consumer budgets but has knocked out of the sky a large fraction of the airplanes our taxes might otherwise have bought. Or to quote a report of the Department of Defense, "In terms of the number of guns that can be procured with available funds, the effect of inflationary price increases is almost the same as if half the guns on order had been destroyed by enemy action."

Further price and wage increases will in no way increase total production. Inflation invites business to seek profits by manipulation of markets rather than by efficient expansion of production. Inventory accumulation becomes a foolproof way to make money. Manpower and capital facilities are absorbed in distributing output rather than increasing it. By encouraging the hoarding of materials and of labor, inflation disorganizes the flow of production and makes a shambles of allocation orders and procedures. Inflation frustrates the thrifty, especially those who patriotically buy Government bonds, and brings bitterness and disillusionment to those seeking to cooperate with the defense effort. Inflation gives its biggest rewards to groups whose spending and manipulative activities provide a sardonic contrast to the sacrifices asked elsewhere on the home front and on the battlefield.

Efforts to increase production, moreover, at present high levels of employment, are likely to bring about increased inflation for the time being in at least two respects. If additional capacity is built—and more capacity must be built—the additional investment, whether in a steel mill or atomic energy plant, will in itself cut the supplies available to civilians at the same time that those who build such plants are earning high wages and profits. If additional production is obtained through premium payments for overtime labor or higher incentive prices, incomes will be increased faster than production, again serving at least temporarily to aggravate the problem of inflation.

Inflation is in fact the enemy's sixth column. In several countries, including Austria, Eastern Germany, Hungary, Roumania, France, Italy and China, inflation served the purposes of Communism. In his famous book entitled "Economic Consequences of the Peace," John Maynard Keynes observed more than 30 years ago:

physical materials controls. But pressures. Nobody likes taxes, especially not on his own income. Washington hotels have been crowded to the rafters by representatives of various groups urging Congress not to tax their industry or income. By implication and by sheer default, the major part of the tax burden will fall on the ordinary citizen, if the organized, the strong, the crafty, and the articulate succeed in getting out from under their fair share. The general public presents an especially tempting target for taxation because it is unorganized and defenseless. Even if it votes, its votes are too widely scattered and divergent to weigh in the political scales.

It is politically easy, therefore, to hike sales taxes, excise taxes and income tax rates upward whenever revenue requirements increase, or to maintain them at high rates when the more politically influential elements of the community, especially businessmen and persons of large income, demand tax relief (as illustrations, note the tax legislation of 1946 to 1948). The National Association of Manufacturers now, for example, advocates a general manufacturer's excise tax to yield as much as \$20 billion, and plausibly urges it as a "bold, constructive, new solution" presenting "an opportunity and a responsibility for industry leadership which constitute a high challenge."

The total amount of excise taxes which can be raised will, of course, vary with the amounts consumers spend. Unfortunately, there seems to be no notion quite as persistent or as fallacious as the idea fixe that 60% of the people must do 60% of the consumption. Therefore, it is alleged, in order to channel resources into defense, goods military necessity compels heavier taxes predominantly on the low-income masses, no matter how much humanitarians may dislike such measures.

Surprising as it may be to the uninformed, most of the consumption in dollar volume simply is not done by the masses. I refer here specifically not merely to those on pensions and to low-income farmers but include organized workers. Even the current average weekly wage of \$64.00 a week in manufacturing industries, assuming that workers enjoyed as much as 50 weeks a year of employment on the average, amounts to only \$3,200 a year. Probably three out of five spending units in the United States received less than that amount.

Studies conducted at the University of Michigan show that the spending units (this includes the earnings of all the workers in multi-worker families) whose incomes total less than \$3,000, while they comprise about 54% of the total, buy only 26% of the durable goods, only 27% of the liquor, 28.8% of all goods at retail excepting food, and make only 31.3% of all consumer expenditures.

On the other hand, those getting over \$4,000, comprising only 27% of the spending units, buy 54% of all durable goods, 50.5% of the liquor, 51.2% of all goods sold at retail excluding food, and account for 48% of all consumer expenditures. In fact, the approximately 2,500,000 spending units "with incomes in excess of \$7,500 spent nearly 3 times as much on durable goods as did the 17,000,000 spending units getting less than \$2,000."

Clearly it is the spending of those getting over \$4,000 that must be curbed if a major frontal attack is to be made on the problem of restricting consumption.

Such an attack obviously has to consist first and foremost of special increases in income taxes in the brackets from \$3,000 and up, especially so in the brackets be-

¹ National Association of Manufacturers, "Industry Believes" (New York, 1949), pp. 27-28.

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As We See It

eleventh hour decision. A clear, consistent line of policy during the years preceding June of last year might very well have prevented the rise of the situation by which we are now faced in Korea. Just what has been gained in that country, or could now be gained, even by a resounding victory there—or whether such gains or possible gains could be assessed as worth the American lives that have been sacrificed in Korea—is a question the future must decide.

Not in Korea

One thing is clear enough. We shall not be able to find a solution for our problems emanating from the Kremlin anywhere in the Korean peninsula, or, for that matter, anywhere in the Far East—though, of course, developments there may have some effect on the world situation as presumably did the outcome of the Berlin blockade. We have to remember, however, that Korea, and even China, are mere pawns in a game of world-wide scope. It has been said that our troubles in Korea began in Teheran, Yalta, and Potsdam. There is much truth in the statement. The more immediate of our troubles with Moscow find their sources in the concessions made upon these occasions, and more particularly in the supposition underlying these arrangements—the “Grand Design” of dealing with the Kremlin as if it could really be trusted.

But it seems to us that the trouble goes farther back into history than is suggested by such a diagnosis of current ills. Under the leadership of Woodrow Wilson we fought a war to end all wars. We held back from participation in a world organization which quickly degenerated into a statistical bureau plus an instrument through which the old imperialist urge in certain of the participating countries could be given practical effect. It is sometimes said by professional reformers that our refusal to take part in all this rendered the League of Nations helpless and impotent—a thesis we should certainly not undertake to defend. We think, on the contrary, that we were quite well advised to remain aloof, and we believe that the events of the past year or two tend to sustain our view.

But with the rise of Hitler in Germany, Mussolini in Italy, the war lords in Japan, and Mr. Roosevelt in this country, the old League of Nations idea came to life. Before there was any war, even in Europe, the President of the United States began to shout from the housetops about “quarantining” the dictators—meaning, of course, chiefly Hitler and Mussolini (and not Stalin, apparently). The United States was stepping dutifully into her role of “world leadership.” Long before Pearl Harbor we were taking part, and an important part, in World War II, whatever the technicalities of the situation may have been. Pearl Harbor will, indeed, “live in infamy,” but the cold fact is that we had long been engaged in helping in the destruction of nations against whom we had no direct cause of complaint.

With Tyranny Against Tyranny

Then came Pearl Harbor and our full participation in the “total war.” It was soon, indeed it was almost at once, a holy crusade against enemies of freedom. The Administration at Washington persistently refused to face the fact that while we were fighting against tyranny and all the rest, we had as a principal ally one of the most notorious tyrannies of all time, and one which had already shown itself quite without honor and far more bent upon taking the remainder of the world into its camp than our enemies had ever done. It is hardly strange in these circumstances that the great rank and file of the people fell into the same attitude of mind.

Now necessity is a hard master. Stresses and strains sometimes produce strange conclusions. The blandishments of powerful men in need of help are insidious. President Roosevelt was much inclined to the notion that he could bend strong men to his will. Which of these, or other circumstances, and in what proportions, are responsible for taking one Joseph Stalin into the comity of the so-called democracies of the world, or for supposing that by this or that line of personal treatment it would be possible to cure him promptly of his bad habits, his custom of deception and treachery, his contempt for the non-Communist world, and his long-preached determination to take the remainder of the universe into his camp, it would be difficult to say, but it happened—and before the rest of the world could awake to realities or do anything about it the Kremlin had pre-empted strategic positions for his postwar campaigns of insidious or open warfare against his former allies.

This Is the Background

It is against this background that the Korean situation is to be examined. It would appear reasonable to hope that something at least could be gained by balking the bald effort of the Communists to take over Korea. Something of the sort was apparently the result of the successful balking of the Berlin blockade. The willingness of at least the United States (and the ability) to fight effectively in far-off Korea against enormous numerical superiority can scarcely fail to have face-saving (or face-giving) effect in the Orient. But there are many other parts of the world where the Kremlin may move.

It is from Washington, not Korea, that the men and women of the United States ought to be able to look confidently for hope.

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Low Productivity—Serious Threat to Steel Industry

three years the expansion which would normally have been spread over most or all of the 1950s. We may, as a result, in the absence of all-out war, have a somewhat painful waiting period during the middle '50s while the needs of our national economy catch up with our capacity.

This leads me to repeat again the well-known fact that in only three peacetime years during the past 66 years for which records exist have steel operations averaged 90% of capacity.

It doesn't require any great feat of memory to recall that during the unlamented '30s, when we had nothing to fear but fear itself, the theory of a mature economy was widely held in Washington and elsewhere. This school of thought maintained that our horizons had been reached in America. Our future concern, we were told, should be with social gains and a more equitable distribution of the wealth acquired during our period of growth and development.

Question of Capacity

Today the successors to this group, and in some cases the very same individuals, are clamoring for 130 million tons of steel capacity. I have completely lost the ability to be either surprised at, or shocked by, the type of economic thinking that seems to thrive and flourish in the benign climate of our national capital. The danger to industry lies in the effect of such propaganda on the American public.

This propaganda does not point out that our total industrial capacity has been great enough to add to total business inventories while meeting the highest levels of consumption ever recorded. It does not take into account the tremendous stock of new consumer goods and producers' equipment which has been built up in the hands of users during these postwar years. For example, there are now 49 million automotive vehicles registered as compared to 34 million at the end of the war. Another example: at the end of the war there were almost 20 million electric refrigerators in use; 67½% of the wired homes had one. Now there are almost 34 million in use and 86% of the wired homes are equipped. Hardly anyone had a television set in 1946; now there are over 10 million in use; there is one in every fourth home. C. E. Wilson made the statement recently that by 1952 rearment will be taking 20% of our total national output, but with our increased steel capacity we should have all the durable goods that the country really needs. I agree with him.

These 130-million-ton planners have also not brought out the rising cost of money. I refer to the recent increases in interest rates and bond yields, which make it more expensive to carry invent-

tories, build new plants or do any of the many things for which companies borrow funds. Granted that the situation underlying these higher rates is a brake on further inflation, they are still an important factor in expansion plans.

It will be many years before we need or will reach the 130 million tons of annual capacity government planners are pushing for. If there is a sound need for 130 million tons of steel annually, our industry will fill it without pressure. I am one of those who pray that such outside pressure will not force us into reckless and foolhardy expansion which could lead to another 1929 tragedy.

During the past few years our steel producing facilities have leaped forward at a fantastic rate. The industry has kept faith with the nation. In 1940, 81 million, 600 thousand tons; in 1946, 92 million tons; today, 104 million tons and by the end of 1952, close to 118 million tons. We must remember that expansion can be overdone, bearing always in mind the high fixed charges with which the industry is burdened.

Capital Requirements Huge

But few people understand the huge sums of capital required for expansion such as the steel industry has undertaken. Since 1946 steel industry expansions have cost \$2,400 million. By the end of 1952 the total will approach \$5,000 million. And this \$5,000 million is buying only an additional 26 million tons of capacity.

By contrast, at the beginning of 1946 the total property investment in the steel industry with 92 million tons of capacity was \$5,800 million. These comparative figures are amazing. Where do we get the vast sums that are being used to carry out this expansion program?

Our industry has for many years been a notoriously poor investment. In the so-called lush '40s the average return on sales was 5½%. The average for the first half of this century was 7.1%. With this background it is small wonder that the stocks of some of the leading steel producers are selling for only five or six times their earnings.

The amazing thing to me is that in the five postwar years we have been able to spend for producers' durable equipment—the tools of production—almost 8% of our country's gross national product. This 8% does not include the vast sums spent for construction. This was done under a system of taxation which could scarcely be more discouraging to capital investment if it had been deliberately designed for that purpose. This situation has been changed as the result of the improved regulations covering the amortization of emergency facilities.

Obviously, profits of our industry must be plowed back to maintain efficient operations and fi-

nance expansion. Whether sufficient profits will be available depends in some part on the size of governmental expenditures and how intelligent the folks in Washington are in developing a fiscal program which will not tax away all the profits.

In Republic, as an example, and I think it is typical, we have re-invested \$122½ million or 60% of our profits since Jan. 1, 1946.

Profits Too Low for Their Job

No, gentlemen, profits haven't been too high; they have been too low to do the job they are called on to do. But profits will be slender indeed unless our increased investments bring with them increased productivity.

Increased productivity is even more essential today because of some of the things that don't show on the balance sheet; which are not reflected in the figures we publish as profits, but which nevertheless represent mortgages on our future earnings in a moral if not a legal sense.

Every management man in this industry is thinking subconsciously of that waiting period in the middle of this decade, or whenever it comes, when his greatly expanded facilities will perform at less, perhaps considerably less, than capacity operations. He is wondering where the break-even point will be. Are we overlooking those moral obligations which will loom large indeed when operations fall off?

Let me recommend a look behind the 118 million tons of ingot capacity we will shortly have. All of us have made varied and far-reaching commitments to assure supplies of raw materials. The huge investments of our own capital appear in our normal financial exhibits. But, in addition, we have contracts signed with others, obligating ourselves to take millions of tons of ore and coal over future years.

On the strength of these commitments, others are investing huge sums of money, some of it borrowed, with only our contractual agreements as security. On the basis of faith in our integrity they have put together large blocks of coal property and large reserves of ore. They have borrowed money to build railroads, port facilities, town-sites, steamship lines.

Furthermore, there are certain fixed annual cash charges against operations which must be met regardless of our rate of operations. These include such items as interest on borrowed money, property taxes, capital stock and franchise taxes, rentals, insurance, royalties, pension costs, and contracts against current delivery of iron ore. The total of these items alone in Republic is over \$70 million each year.

In addition, under the same conditions, operations must bear other relatively fixed charges such as salaries and depreciation totaling an amount in our case of another \$70 million.

This \$140 million does not include Republic's capital commitments for new ore sources, which appear in our normal financial reports, for steel producing and manufacturing facilities and for debt retirement.

But suppose operations decline. What happens then?

These facts are cited only to emphasize the necessity for maintaining profits at the highest possible level even in a period of declining operations. It is the only way we can possibly carry the tremendous load of both recognized and unrecognized investment in the huge expansion program into which the steel industry has been led or pushed, depending on your point of view.

Our industry has given too little attention to these unrecognized investments in the past because they were on a modest scale. High unit costs and the tremendous ton-

nages involved have now made them a factor which must be included in calculating the future costs of doing business. We expect to treat them as such in our company and to give them full weight in determining our own concept of an adequate price structure.

Reinvested Profit and Productivity

As steel operators, it is up to us to see that these reinvested profits, together with new capital which may be secured from other sources, bring the productivity we can expect.

With a planned increase of our production capacity of 44% between 1940 and 1952, what has happened to our productivity? While dollars can increase production, unless more units are produced with the same human effort we have not increased our productivity.

Increased production without increased productivity usually turns out to be a bad investment. It is through increased productivity that we lower costs, enlarge markets and improve our standard of living.

New capital alone may not increase the productivity of our operations. There is a second requirement. Our employees must be willing to use the new equipment fully and efficiently. Then the investment can be justified.

First, let's consider the place of capital in increased productivity. Historically, the productivity in the steel industry has gone up 2 to 3% a year. That increase required new capital—lots of new capital.

This new capital replaced hand mills with strip mills; 75-ton open hearths with 250-ton furnaces; 14-foot blast furnaces with giants having nearly seven times the hearth area—all within the memory of most of us in this room.

Without such improvements we would be living about the way people lived in the early 1900s.

At the same time, the number of dollars required to supply a man with the tools he needs for his job has shot up like a skyrocket.

A decade ago, depending on the plant facilities and other factors, to create a new job in the steel industry might cost \$10 to \$15 thousand.

Last fall the plans for our Cleveland expansion were completed. The capacity of the Cleveland plant was to go up 672 thousand tons at a cost of \$75 million. Some 800 new jobs would be created. And each new job calls for \$90 thousand. It didn't sound sensible.

Recently Ben Fairless said that each of the 4,400 jobs in the new Fairless Works at Morrisville will also have \$90 thousand back of it. We felt better.

If ever increased productivity is essential, it is in this period of high cost expansion currently being carried out by the industry.

New Capital Foundation of Productivity

While new capital is the very foundation of productivity gains, whether or not we get those gains depends on how efficiently the new facilities are used.

For instance, we are all familiar with the heavy capital installations made by the steel industry in the 1940-46 period. These should have given us increased productivity, but in fact we find in that period a reversal of the long-term downward trend in manhours per ton of steel. Starting from the record low reached in 1942, manhours per ton steadily increased, not decreased, through 1946. It was not until 1950, and after tremendous additional capital expenditures had been made, that manhours per ton were significantly brought down below the 1942 figure.

This adverse trend in productivity during the 1942-46 period is outlined by Father William T. Hogan in his book, "Productivity

in Blast Furnace and Open Hearth Segments of the Steel Industry." Father Hogan says, "In the analysis just presented it will be noted that the overall trend in man-hours per ton (blast furnaces) is steadily downward, with a few minor interruptions, to 1942, after which it swings upward. . . . In the matter of manhours per ton (blast furnaces) in this seven-year period, 1940-46, we find that the best results were obtained in 1941, when the figure dropped to 0.459 manhours per ton, . . . after it fluctuated and finally stood at 0.606 in 1946."

With regard to open hearth operations, Father Hogan says: "The long range trend in man-hours per ton was definitely downward. . . . However, the course of the descent was marked by several interruptions, and in 1943 was definitely reversed. Thus by 1946, although the manhour per ton figure was 49% below that of 1923, it was 34% above the 1942 all-time low."

Almost all of you will, I believe, find largely the same pattern in your own operations. It is evident that capital expenditures alone are not the answer to increased productivity—even though they are the essential basis from which productivity gains start.

In the final analysis the welfare of the steel industry in the difficult times ahead will depend on the caliber of its leadership. The greatest thing this country has to share with the rest of the world

is not our natural resources, which we continue to squander at an alarming rate, but our management ability to bring together material and parts from many places, put them on an assembly line and turn out a finished product. The finished product not only works perfectly but replacements can be ordered for any part, knowing in advance that its quality and dimensions will fit exactly.

The employee has been confused by the words "production" and "productivity" and thinks they are the same. When he is told that production has increased, he interprets that in terms of productivity and not in terms of capital expenditures which have provided him with higher speeds, larger furnaces, better handling facilities, etc.

Engineers' reports detail what this new facility or piece of equipment will do. We are told how much it will increase output and how many years it will take for that new facility to pay for itself. This is largely based on mathematics.

But we have not given much study to the added productivity which would result if employees realized that increased productivity is to their personal and selfish advantage.

Safety Education as Example

Look back on our experience in safety. In the beginning we spent large sums of money safeguarding belts, fly-wheels, all sorts of moving parts. We sought safety through mechanical devices. And still, accidents did not decrease as rapidly as they should have. Men still kept on getting hurt.

Then we started working with the men. Through personal contact on the part of supervision, we began to teach safety, to show that safety prevented accidents or death with the accompanying hardships. We showed that it was smart to be safe.

This brought gratifying results. The steel industry is today the fourth safest industry in the United States.

Doesn't this give us an idea? We have provided our men with the very finest equipment and tools that inventive genius can devise and money can buy. But have we made clear to them how much they will profit if they utilize these facilities to the very best advantage?

Have we told them so they believe it that real improvements in the standard of living come from increased productivity; that the only safe way of increasing wages, of getting better goods at lower prices and hence higher real wages for all workers, is through increased productivity?

I am sure they don't believe this. Too many workmen still believe that wages can be increased out of profits. They still believe that profits are for the sole benefit of the stockholder. They believe

also that it is profits before taxes that count and fail to realize that taxes are a part of costs.

As a matter of fact, we have been treated just recently to the enlightening spectacle of a successful business man and former President of the United States Chamber of Commerce maintaining that taxes are not costs. This is a leaf directly out of the C. I. O. handbook.

Have we done very much toward making our employees recognize the advantages to them in cooperative effort?

You will agree with me that while a start has been made, the objective is a long way ahead. In Republic we talk to our employees in terms of economics. We interpret the income statement and the balance sheet. We show that job creation and stability depend on profits. This is being done through our plant publications, posters, communications to our employees, and other methods.

We are also teaching our supervisors basic economics. A course of 15 units has been developed in cooperation with the University of Chicago. About 3,200 supervisors, foremen, superintendents, and managers have finished or are taking the course. We expect to extend it to cover again that many. In addition we have had a class of union officers. Another of school teachers and a third of club women.

What do we teach? Here are a few of the 15 lesson titles: Managing Your Income; Your Wages; Exploring Costs; Why Profits?; Republic's Balance Sheet.

Before-and-after tests show us that there have been encouraging results.

If our foremen and superintendents know about basic economics as they apply to industry in general and to our company in particular, they will be able to interpret some of these facts to the men who work for them. They will be able to clear up misunderstandings and deal more intelligently with their men. After all, many of the differences which arise have their beginning in economic ignorance and can be cleared up by economic knowledge.

Should Study Employee Attitude

I believe that it might be worth while making a thorough study of the employee and his relationship to productivity. Such a study, if it is realistic and carefully made, might show us why apparent increased productivity is too often only a reflection of increased capital expenditure. It might also show us how to increase productivity through greater human cooperation. There must be many facets to a man's viewpoint of productivity but we don't know

what they are. Until we know more about this intricate subject, we shall fail to get the full return from our new capital investments in production facilities.

This is especially important now. Today the steel industry is investing in new facilities at an almost frightening rate. The prices we are paying for these facilities are "out of this world." The recognition of this fact was shown when Congress provided for the more rapid amortization of emergency facilities. To make those facilities pay out we must produce as we have never produced before.

I would like to summarize this talk as follows and suggest the summary might well find a place on the walls of your office:

1. Taxes are part of costs.
2. Contract obligations for pensions, for minimum royalties, new railroads, new ships, new harbors and docks for handling ore will require continuing expenditures and must be a factor, and a large factor, in the individual determination of selling prices.
3. Failure to get productivity from new capital expenditures means wasted investment as far as the stockholder is concerned.
4. The employee's stake and advantage in productivity must be clearly proven to him on a continuing basis.

Some of us are giving up a large share of our time to this educational work. If each of you will match the time of those of us who are really working at this job, it can be done.

With Cruttenden Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Sidney A. Nangle has been added to the staff of Cruttenden & Co., 209 South La Salle Street, members of the New York and Midwest Stock Exchanges.

With Kinsley & Adams

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, Mass.—William S. Nicholson is now with Kinsley & Adams, 6 Norwich Street, members of the Boston Stock Exchange. Mr. Nicholson was previously with Spencer Trask & Co.

With White-Phillips

(Special to THE FINANCIAL CHRONICLE)

DAVENPORT, Iowa—Roderic H. Van Scoy is with The White-Phillips Company, Inc., First National Bank Building.

With Harris, Upham

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Bernhardt G. Harig is with Harris, Upham & Co., 30 State Street.

Continued from page 8

Dealer-Broker Investment Recommendations and Literature

Shedd-Bartush Foods, Inc.—Memorandum—Blair, Rollins & Co., Inc., 44 Wall Street, New York 5, N. Y.

Solar Aircraft Co.—Analysis—Cruttenden & Co., 209 South La Salle Street, Chicago 4, Ill.

Southwestern Public Service Co.—Card memorandum—G. A. Saxon & Co., 70 Pine Street, New York 5, N. Y.

Sprague Electric Co.—Analysis—Dayton & Geron, 105 South La Salle Street, Chicago 3, Ill.

Sprague Electric Co.—Follow-up comment—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Trans Caribbean Airways—Card memorandum—Gearhart, Kinnard & Otis, Inc., 45 Nassau Street, New York 5, N. Y.

United States Radiator Corp.—Memorandum—R. C. O'Donnell & Co., Penobscot Building, Detroit 26, Mich.

Valley Mould & Iron—Circular—duPont, Homsey & Co., 31 Milk Street, Boston 9, Mass.

Webster-Chicago Corp.—Analysis—Republic Investment Co., Inc., 231 South La Salle Street, Chicago 4, Ill. Also available is a circular on Flying Tiger Line, Inc.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

The final paragraph in last week's column closed with the following words: "If you plan to do any buying, now is the time to do it. If you are interested in quick turnover you will have a chance between now and the end of June . . ."

When this was written the market was in the midst of a reaction and gave numerous signs that it would have more of the same. But while there was a strange unanimity about the continuation of the break, there were signs that a turn was in the making. The first that this column called attention to, was the presence of, what for the lack of a better description, I called a ten-day deferred move. The second consisted of a series of little things applying to many stocks, the total of which indicated an end to the current decline.

But last Friday the signs were multiplying, and this was happening while the worst day of the current reactionary phase was being witnessed. By the following day, Saturday, it became clear that a rally was right ahead.

Pacific Coast Securities

Orders Executed on Pacific Coast Exchanges

Schwabacher & Co.

Members
New York Stock Exchange
New York Curb Exchange (Associate)
San Francisco Stock Exchange
Chicago Board of Trade
14 Wall Street New York 5, N. Y.
Cortlandt 7-4150 Teletype NY 1-928
Private Wires to Principal Offices
San Francisco—Santa Barbara
Monterey—Oakland—Sacramento
Fresno—Santa Rosa

SPECIAL CALL OPTIONS

• Per 100 Shares Plus Tax •			
Amer. Distil'g	@50	July	9 \$112.50
Studebaker	@31	July	6 87.50
Int'l Nickel	@35	July	23 112.50
Pepsi Cola	@10 1/2 Aug.	7	87.50
Radio Corp.	@19 1/2 Oct.	22	200.00
Armco Steel	@44 1/4 Oct.	19	225.00
Chesap. & O.	@33 1/2 Oct.	16	187.50
Curtis Pub.	@9 1/2 Oct.	22	75.00
Am. Saf. Raz.	@9 1/2 Oct.	22	75.00
Pure Oil	@53 1/2 July	12	100.00
Southern Rail	@55 1/2 July	16	100.00
Western Union	@41 1/2 July	19	100.00
U. S. Steel	@47 Oct.	8	137.50
Warner Bros.	@13 3/4 Nov.	17	137.50

Subject to prior sale or price change
Explanatory pamphlet on request

THOMAS, HAAB & BOTTS
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Monday's market was hit with probably one of the worst pieces of bad news — the battle between R. H. Macy and Gimbel. When these companies announced the price war following the Supreme Court's decision upsetting the price-fixing law, it must have shaken the entire inventory structure. There is hardly a distributor or merchant who has not loaded up with inventory during the past few years. If he is threatened with a falling market, he will have to unload. Instead of inflation, it could lead to deflation.

* * *

In spite of this turn of events, the market now held firm and started up. This sort of action speaks volumes for the underlying technical strength of the market. The stocks which show the greatest strength are the chemicals and the pharmaceuticals; they may even make new highs on the current swing.

* * *

But before you start throwing your hat in the air at the prospect of a new bull market, permit me to caution you that the rally at this point is primarily a technical one. This doesn't mean it can be shoved off lightly. If the leaders retrace 70% of their losses, it will still be gratifying to be aboard. I don't, however, think that more than a two-thirds retracement from the extreme lows will be seen.

* * *

Among the groups which should participate in such a rally are those which were most active in the recent decline. These are the steels, the motors, some oils, liquors (particularly Schenley) and at least one utility, American Telephone and Telegraph.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Coffin & Burr Add

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Ernst M. Parsons has been added to the staff of Coffin & Burr, Inc., 60 State Street, members of the Boston Stock Exchange.

SPECIAL CALL OPTIONS

Per 100 Shares (Plus Tax)			
Climax Moly	.34	July	2 \$212.50
Dumont A.	18 1/2	Sep.	24 187.50
Magnavox	16 1/2	Oct.	23 187.50
Zenith	66	July	30 400.00
Crucible Steel	40 1/2	Aug.	13 175.00
Penn RR	18 1/2	Aug.	27 200.00
Philco	23 1/2	Oct.	19 250.00
Warren Pet.	27 1/2	Aug.	27 275.00
Mo.Kan.Tex.Pf.	56 1/2	July	30 350.00
Chrysler	69 1/2	Aug.	27 550.00
Studebaker	31	Aug.	17 175.00
Pepsi Cola	12	5/8/52	125.00
Avco	8 1/2	Oct.	23 100.00
West. Pacific	54 1/2	Aug.	17 175.00

Booklet on Puts and Calls on Request

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Members Put & Call Brokers & Dealers
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30 Pine St., N. Y. 5 Whitehall 3-9177

Continued from first page

The Business Outlook at Mid-Year

The Impact of Controls

Some people may say, but what about the impact of all these controls? What about the forms that we have to make out to satisfy Mr. DiSalle and Mr. Johnston? What about the taxes we have to pay? What about the wage-controls and the danger that the ceilings on wage stabilization will be pierced? What about the impact of controls? Do you still say, in face of all that, that the overall volume of business will follow this remarkably steady course?

The answer is, without any qualification, yes. Those factors will not prevent the realization of that outlook for the general volume of business.

There are others who will say, but what about the news from the war front? Suppose the Korean Army should be whipped thoroughly and decisively, and there should be peace in the Far East? Or, on the other hand, suppose that the situation in Iran proves explosive, or that in some other way provocation to broaden the area of war should take place, would you still say the same thing about the business outlook in general?

The answer is yes.

The uncertainties on the foreign front and on the home front will not change that business outlook materially and significantly in the balance of '51 and in the early part of 1952.

I have talked about the overall volume. I realize that different parts that make up that volume follow divergent courses. Some lines will be up and some lines will be down, and I will take just a moment to try to draw a little blueprint of these component parts of the picture. We have gone through a period of tremendous increase in total business inventory. We are near the peak of that, and I should expect total business inventory at the end of this year to be no higher than it is today. Furthermore, I think there is a good possibility that it will be a little lower than it is today.

I shall not attempt to go into details about defining it. It simply means the total dollar value of all product and services during a given year. It is the sum of what all individuals spend for goods and services, plus what private business spends for capital purposes, plus what the government spends. It is the sum of the spending by three groups of spenders—individuals, business spending for capital purposes, and government spending for goods and services. That is the gross national product.

At the end of 1950 the gross national product was about \$300 billion. At the end of 1951, the gross national product will be between \$325 billion and \$335 billion, in dollars of then current purchasing power. That increase from \$300 billion to between \$325 billion and \$335 billion will be partly due to physical volume and partly due to price rise. The part that is due to increased physical volume will be a little more than half of the total increase. Something less than half will be due to a change in the value of the dollar during that 12-month period.

The gross volume of business can be looked upon as a reasonably assured projection because of two great forces that are constantly pushing it ahead. These forces in 1951 are the defense program, with a target of spending of \$50 billion by the end of the year, and the business program of private capital expansion which amounts to about \$26 billion for the year as a whole.

Those are the two great dynamic forces that will push business volume ahead and make it remain remarkably steady and firm, and with a slight upward tendency in the curve through the balance of this year and well into the early part of 1952.

By sharply, I mean anything from

6 or 7% up to 15 to 20%, somewhere in that range.

The minus sign on a year-ago comparison will be pretty tough in the month of July. Why? because retail trade has suddenly fallen out of bed? No, not at all. Because in the month of July they will be making comparison with July of a year ago, which was the first month post-Korea of the great consumer hoarding wave, when for a time department store sales jumped 45% above the previous year.

In comparison with that type of July a year ago, a minus sign on department store sales will not make people too happy in the coming summer season, but that is a psychological matter. Objectively, and from any fair standpoint, there is no reason to regard that as a setback or a sudden nose-dive or a buyers' strike or anything of the kind. It is simply one of the tricks of simple arithmetic, and is the way that particular figure will have to work itself out.

But, as we come toward the end of the year, I think department store sales will prove reasonably satisfactory to most of the stores in that field. The total civilian level of the economy is measured perhaps in easiest terms by the figure that is called personal consumption expenditure. In the last few months that has been at an annual rate of \$206 billion. I think it will drop below \$206 billion by a small amount, \$3 billion or \$4 billion, but will end the year back about where it started, at the \$206 billion level.

Civilian Consumption Course Horizontal

The civilian consumption level will follow a more or less horizontal course. It will provide little or nothing as far as the expansion of total business is concerned. The expansion of total business will come from two other sources—the step-up in defense spending and the very high volume of private capital expenditure. But the expansion of the economy this year and next will gain practically nothing from the civilian side, the personal consumption expenditure.

One other particular feature of this gross national product or one of the parts of it is the problem of private investment. This defense program differs from the one of ten years ago in one very important respect. It leans almost entirely on private capital. The government is not building directly for productive capacity. Private industry is doing it.

If, in this program, the government were doing as much direct expansion of production facilities as it did in the last war, the Federal budget would have to be \$10 billion to \$12 billion more than it actually is. That burden has been shifted over to the private economy, and the private businessman has to scramble around and find that amount of capital in order to carry out the program and make good the challenge that is placed on him.

This great shift of burden for capital purposes has had repercussions on the bond market and on money rates and will continue to have a fundamental bearing on the trends of these financial markets during the next year or two. Extraordinary tension and strain is placed on the financial markets because of the shift of this responsibility from the government to the hands of private enterprise.

Perhaps that is a good thing, as we all want to see private enterprise do as much as it possibly can. But I mention that without criticism one way or another as an interesting fact, to give explanation to many of the mysteries that surround us these days on what is taking place in the business world and in the financial world.

So much for the gross national

product. I turn now to the question of inflation, surely a time-honored question and one that everybody has hashed over ad nauseam for the last several years.

I speak on inflation with much less confidence and conviction than I have spoken on the general volume of business. I have if's, and's and but's in my own mind as far as anything I say on the inflation question today.

Inflation Resurgence

However, here it is. I think that there will be a revival of the inflationary trend in the latter part of this year, but that it will not be as exaggerated as most people today seem to anticipate.

I think it will take forms somewhat different from what most people are anticipating. For instance, over the past nine months, the most striking part of the inflation was in raw material commodity prices. During the next nine months, I don't expect much if any change in the average of leading raw material commodity prices. There will not be a raw material price inflation.

Coming to industrial prices, particularly the prices of manufactured products, we had an increase of 18% in this price index from February last year to February of this year. We stand today about where we were in February on these industrial prices.

Where will this index be as of the end of the year? It will be up by less than 5%, and if I had to get down to slice the cake awfully thin, I would say it would be up 2 or 3%. But it will not go up again at the rate of 18% per annum as it did in the period up until February and March of this year. We will not resume that very fast pace of inflation of industrial prices.

What about the cost of living index? That index, recently at 184, will probably end the year pretty close to 190, something like a 3% further increase in the balance of 1951.

Inasmuch as many labor contracts today are based on the cost of living index, let me pause for just a moment to show certain relationships between the wage outlook and the cost of living outlook. I shall start this by saying, if the General Motors formula is allowed to operate, the wage increase should be four cents an hour in June for annual improvement plus three cents an hour for the cost of living. And by December there should be an additional three cents for the cost of living, making ten cents an hour increase between now and the end of the year.

I started that statement with an "if." Now let's take a look at the "if." I said if the formula is allowed to operate. In the last two days some of the control officials in Washington have been making some statements about the great need for more controls if we are going to fight inflation, but the question on wages is not more power, the question is more courage to apply the power they already have. If they have the courage to resist the pressure coming from the big labor unions, this increase will not occur.

I think it would be a little bit insidious for me to try to say whether they will allow this formula to go through or not. My guess is that they will allow the formula to function and that a wage increase of about that amount will occur in the leading industries. There are smaller companies, and many other companies, that don't immediately respond and give the same wage as is given by the big leaders, and allowance has to be made for a lag of that kind.

Total Payroll Increase

However, if the lead is set in this way, then something will

happen to total payroll, something that is rather astounding. The total payroll would increase, so that by a year from now it would be \$20 billion more than it is today. More than half of that \$20 billion would come from a change in the straight-time hourly rate. The balance would come from overtime pay, a longer work week and factors of that kind. However, it would look as if we are coming into a period where total payroll will increase at the annual rate of \$20 billion.

The base figure for total income was \$160 billion of labor income a year. That would probably be \$180 billion, roughly, a year from now.

Thus, the net conclusion that I might draw would be that the big inflation over the next 12 months will be in payroll. It will not be in industrial prices or in the cost of living index, but the threat of inflation in the next 12 months will arise from the inflation of payroll in the American economy.

I turn now to a question that I shall treat rather briefly, a question that I find is growing in importance in the minds of a great many businessmen. What about excess capacity? Some two or three or four years from now, when we go over the top of the hill of the defense program and get into a post-emergency readjustment, what about excess capacity at that time?

I have no doubt there will be a certain amount of excess capacity, then. However, most authorities who have discussed this seem to me to have exaggerated considerably the threat of excess capacity. Much of this new capacity is of the stand-by variety. The theory of this whole defense effort is not to see how much we can produce in the way of finished munitions to be stockpiled in warehouses and which become obsolete at a very fast pace, but the intent of the theory is to increase the productive capacity, to get the bugs all ironed out of the manufacturing process, so that if the crisis suddenly turns red-hot, we can quickly turn out the end products.

That is the theory of stand-by capacity, and much of the capacity that is being built today will continue as stand-by and will not be usable for ordinary civilian purposes in the post-emergency period. That will not be true of all things. There are certain products that are interchangeable, such as steel. The same plants make the same steel. It is usable whether it is for peace purposes or war purposes. So that the stand-by capacity theory does not apply. But in a great many other fields it does, and an important part of these new productive facilities will have to be regarded as stand-by in nature.

High Obsolescence

Furthermore, this war, even more than other wars, will cause an unusually high rate of obsolescence in plant. The figures that people use about the capacity in a given industry in the period three or four years from now should be very carefully considered and reexamined to allow for a higher rate of obsolescence, scrapping of old plant, high-cost plant, than is normal under conditions outside these emergency periods.

Furthermore, war stimulates research and capital expenditures in a post-war period are a direct function of the amount of research during the war period. The research work of American business will be stimulated not only by the needs of the business but by the excess profits tax. The operation of the excess profits tax provides business an incentive to spend more than ever on research activity which will pay off in a just getting into controls and

period three or four or five years from now, through new productive facilities to embody the results of such research.

When I think of the post-emergency period, I do not think of complete demobilization. We are not likely next time to go from total war to total peace. Suppose we go to a peak defense program of somewhere around \$55 or \$60 billion a year, and then we decide to taper off. We don't taper down to zero, we don't taper down to \$5 billion a year. The most probable tapered figure I can suggest would be around \$35 billion a year and will continue at that pace for some period of time.

Of course, that depends to some extent on Russia. If Russia should suddenly turn very friendly and kindly toward us, build a peace, why we might discontinue, but you know, as well as I do, what the odds are in favor of that.

For practical purposes, the only thing to do is to assume a continuing defense operation at a fairly high level, and I offer the figure of about \$35 billion. That will provide an important cushion against shakedown, transition and reconversion at the end of the emergency period.

The Population Factor

There is another constructive factor that will tend to protect us from the ravages of a great post-war depression, and that is the influence of population which offers a very dynamic force in the economy for the entire decade of the '50's. It is operating today and will continue to operate no matter what happens in the field of war and peace. Neither the birth rate nor the marriage rate has declined in the past 12 months, as most authorities thought they would. The population factor will supply a stronger support to business, along in the period of '54, '55, than seemed possible even as recently as 12 months ago.

When we consider all these things, we don't eliminate entirely the prospect of readjustment when we begin to diminish our defense program. But it seems to me that we get a prospect that might be simply defined as something of this magnitude: that we should be able to make the changeover from this strenuous effort in defense to the aftermath phase with a business readjustment not materially greater than that which occurred in 1949.

I think of 1949 as a fairly good model year to set up in our minds for the readjustment that might occur when we taper off from this defense emergency.

My fourth and last point is another one upon which I should like to speak with considerable confidence, and it is a very positive point in my own mind. It is the question of the outcome of what is going on in this country today, what I shall refer to as the ultimate outcome.

We are engaged in a great effort to turn the genius of American industry for research, engineering and technology into the arts of war. That is a task to which we have set ourselves and the cards have been dealt. We don't always like the cards that we happen to have in our hand, but the cards have been dealt and we are going to play the hand out. The question is, where is the end result? What is the ultimate outcome?

To answer this, my mind goes back to ten years ago, to the program to which the chairman referred in the introduction. I was on this same platform in 1941 with General Knudsen, and the audience at that time was the most gloomy sea of faces that I have ever seen in my life. The blue was indigo blue. People felt downhearted and downcast. They were just getting into controls and

bureaucracy and regimentation, and it was disheartening to a most extreme degree.

To try to stand up at that time and say anything that was useful or that one could have conviction about seemed quite impossible, but I recall my effort on that occasion to say something I thought would be to the point, and the essence of it was simply this:

I said, gentlemen, you feel pretty bad and pretty confused, pretty discouraged, but you have set yourselves to the task of turning out a sort of miracle of output, and a year from today, a year and a half from today, this same bunch of men, who are so downhearted

tonight, will be slapping each other on their backs and pointing with great pride to the miracle of output that American business has accomplished.

It turned out that way, and I make the same prediction to you on this occasion. That a year to a year and a half from now you will be pointing with great pride to the fact that American business has again done the job it was called upon to do, and in so doing, American business will occupy the good graces of the American people and will command the admiration of the whole world for its remarkable genius in production capacity.

Continued from page 11

Security and How to Obtain It

Annuities. The dollar you saved 10 years ago has lost much of its purchasing power and forces in action today are likely to drive the purchasing power of the dollar to a new all-time low.

The happiness and security of the family depend first on the man's ability to produce and earn. Almost as important is his ability to save, but the individual must give thought not only to how much he can save, but what form of savings he should use. It is no longer wise to put all of his savings in Life Insurance, Savings Accounts or Savings Bonds. He must seek to protect the purchasing power of his "saved" dollar as well as to have assurance for the return of principal.

Role of Investment

Systematically investing will help satisfy the longing for financial security now, and it will supplement the retirement income provided by social security, company pension plans or savings accounts or annuities.

The individual who saves regularly is a more valuable worker. He is more efficient on the job, is a better producer, is more interested in company welfare. The saving worker is happier because he has a financial reserve to insure himself against loss of earnings due to accidents, sickness or loss of job, and at the same time he is building an estate for himself and also an educational program for his children. No matter what the individual's retirement income may be or the size of his present bank account, regular, systematic investment in Mutual Fund shares will enhance them greatly. No matter what his present income may be, he should always lay something aside for a "rainy day." Every individual should invest in American industry. If he knows what stocks to buy, and when to do so, he can do it himself—if not, then he should consider investing through a Mutual Investment Fund. This gives him a stake in American industry. When more people directly own an interest in our American corporations, they will not tolerate socialistic schemes that would destroy our freedom.

When control of business concerns is distributed more widely among the people, "isms" will soon become "wasims."

However, please bear in mind that there is no magic road, no streamlined train to security. No super-bomb can blast our way to security unless it be the security of a dead planet. Security, when it comes to this earth, will be God's gift to mankind. Security is an individual matter—it must begin in our hearts—and then work outward through the nations. The solution must be both moral and material.

So long as there are men and nations lacking the means of living decently which others enjoy, so long shall we have social strife, hatred and wars; so long will des-

perate people follow spellbinders into wars of conquest. But the century that produced the atom bomb, the jet plane, the guided missile of sudden death, has produced and can produce other miracles of applied science and improved techniques that can raise the standard of living of all peoples willing to apply them constructively instead of destructively. What a world we might have today if we had spent \$350 billion in five years or \$50 billion in one year, on constructive and productive projects for ourselves and the world, instead of spending that much money, billions of hours of productive time, and incalculable treasure of our natural and human resources on destruction. And suppose all the nations that the war left bankrupt and in ruins had joined us in a \$10 trillion war against poverty, want, disease, ignorance—for \$10 trillion was the money cost of the recent war.

Foundation of Successful Life
You see, it is not just pious talk when I tell my Sunday school class of young men that inward security, peace with God and with our fellow man is the foundation of a successful life. It must also be the foundation of a successful world. Security begins at home within the individual, the family, to spread through the nation and the world.

Only by a miracle can that happen to the world in the lifetime of anyone here today. But it could happen if enough people on both sides of the iron curtain could make to see that neither side in a third World War could win that there would be nothing won the winning for the survivors share.

Let us never forget that the Prince of Peace Himself shed His own blood on the Cross to open the way for everyone to have peace and Eternal Security with God and to show us the necessity for living aright in our relations with one another. When individuals and the nations of the earth acknowledge Him and give Him the preeminent place—then, and then only, will we have peace and security.

Joins Ohio Co.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio—Richard S. Hunter is now with The Ohio Company, 51 North High Street, members of the Midwest Stock Exchange.

With Edward E. Mathews

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Donald W. Broderick has been added to the staff of Edward E. Mathews Co., 53 State Street.

Joins Gibbs & Coe

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, Mass.—John J. Kerrigan is now affiliated with Gibbs & Coe, 507 Main Street.

Continued from page 5

The State of Trade and Industry

of steel this month "as promised." About 2,500 Champion employees will be laid off.

Steel Operations to Show Further Mild Decline This Week

Optimistic statements on future steel supply by top-drawer officials of government and industry will probably come true in 1952. But right now, and for a good many months to come, there is not enough steel to support the guns-plus-butter economy to which we are committed, states "The Iron Age," national metal-working weekly, the current week.

While other expansion programs were still being debated, steel companies made heavy expansion commitments which will raise the industry's annual capacity close to 120,000,000 net tons by the end of 1952 or early 1953. This is almost a 20% expansion, which alone is about what Washington officials estimate will be needed for strictly military needs.

This capacity will fulfill the estimates of future military needs and still support a record-breaking civilian economy. Yet no one can blame the manufacturer who is being starved for lack of metal from taking a more shortsighted view. The blunt fact is, there is not now enough steel to meet all demands by all types of users, this trade authority points out.

Steel mills this past week have been swamped with a new avalanche of DO orders resulting from the last increase in DO set-asides. The orders have come in so fast and heavy that some mills still have no idea where they stand for July. Others are certain, from orders received so far, that they will have no "free" steel left over in July on bars, shapes and plates.

One mill reports it will have to again boost the amount of plate produced on its strip mill to meet its share of the directive on plates. Another mill has been turning out a large tonnage of plates on its strip mill for several months. If steel for their own expansion is added to DO and directive tonnage, several mills are now getting close to 75% controlled distribution—on some products it is 100%, this trade weekly notes.

Consumers are redoubling their efforts to get DO's in before the books are closed. Some are sending orders by registered mail, which requires a dated receipt. Some customers who have extended DO orders are canceling them and re-entering them in an earlier month—this is made possible by the revised set-asides percentages, concludes "The Iron Age."

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 93% of the steel-making capacity for the entire industry will be 102.7% of capacity for the week beginning May 28, 1951, based on the industry's increased capacity of Jan. 1, compared to a rate of 103.6% a week ago, or a decrease of 0.9 of a point.

The steel mills were in operation on Memorial Day.

This week's operating rate is equivalent to 2,053,000 tons of steel ingots and castings for the entire industry, compared to 2,071,000 a week ago. A month ago the rate was 104% and production yielded 2,079,000 tons. A year ago it stood at 101.5% of the old capacity and amounted to 1,934,900.

Electric Output Shows Improvement

The amount of electrical energy distributed by the electric light and power industry for the week ended May 26, 1951, was estimated at 6,652,899,000 kwh., according to the Edison Electric Institute.

The current total was 93,481,000 kwh., above that of the previous week, 758,917,000 kwh., or 12.9% above the total output for the week ended May 27, 1950, and 1,382,528,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Advance Mildly in Latest Week

Loadings of revenue freight for the week ended May 19, 1951, totaled 809,475 cars, according to the Association of American Railroads, representing an increase of 1,348 cars, or 0.2% above the preceding week.

The week's total represented an increase of 66,162 cars, or 8.9% above the corresponding week in 1950, when loadings were reduced by railroad labor difficulties, and an increase of 35,565 cars, or 4.6% above the comparable period of 1949.

Auto Output Lifted Mildly Higher

Combined motor vehicle production in the United States and Canada the past week, according to "Ward's Automotive Reports," totaled 160,325 units, compared with the previous week's total of 156,111 (revised) units and 186,249 units a year ago.

The auto industry faces a drop of more than 20% this week, to about 120,000 units, according to the above trade authority, since assemblies will be halted Wednesday for Memorial Day. Almost the entire industry intends to operate this Thursday and Friday, except Lincoln-Mercury which will be down because of materials shortages, the agency added.

For the United States alone, total output was 152,804 units against last week's revised total of 146,292 units, and in the like week of last year 179,063. Canadian output in the week totaled 7,521 units compared with 9,819 units a week ago and 7,521 units in the comparable 1950 week.

Total output for the current week was made up of 118,373 cars and 34,431 trucks built in the United States and a total of 5,347 cars and 2,174 trucks built in Canada.

Business Failures Advanced Last Week

Commercial and industrial failures rose to 191 in the week ended May 24 from 171 in the preceding week, Dun & Bradstreet, Inc., revealed the current week. Although casualties climbed to the highest level in the last seven weeks, they were slightly below the 214 and 206 in the comparable weeks of 1950 and 1949, and were down 37% from the prewar total of 303 in 1939.

Failures involving liabilities of \$5,000 or more increased to

150 from 135, but did not reach the 1950 level of 176 in this size group. There was a rise among small casualties, those having liabilities under \$5,000, to 41 from 36 in the previous week and 38 a year ago.

Food Price Index Turns Irregular

Fluctuations in food prices were irregular during the past week. The Dun & Bradstreet wholesale food price index for May 22 declined one cent to \$7.17, following the steady movement of the previous week. The latest figure represents a rise of 21.5% over the \$5.90 recorded on the corresponding date a year ago.

The index represents the sum total of the price per pound of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Level Extends Downward Course

The continued downtrend in the general level of wholesale prices during the past week brought the Dun & Bradstreet daily wholesale commodity price index to the lowest since the first week of January. The index closed at 319.13 on May 22, comparing with 319.68 a week earlier, and with 262.22 on the like date last year.

Grain futures on the Chicago Board of Trade fell sharply last week under successive waves of liquidation and selling which carried prices to the lowest for several months or longer.

Influential in the decline were the sharp break in course grain and rye prices in Winnipeg and recurring talk of negotiations for peace in Korea.

Corn, which showed the greatest drop, was also depressed by the rapid progress reported in planting of the crop under very favorable weather conditions. So-called dry areas in the Southwest received further beneficial rains last week and tended to limit buying interest in wheat both for domestic and export account. Good growing weather for oats and continued heavy imports from Canada had a depressing effect on that market.

Domestic flour bookings continued on a hand-to-mouth basis, with export business remaining at a practical standstill. The actual cocoa market was steady the past week, while futures scored small advances, largely due to continued absence of pressure from primary markets. Domestic raw sugar prices moved irregularly with final quotations around the previously established highs, following some easiness in earlier trading. The world sugar market was strong, reflecting a tightening statistical position in Cuba. Sales of refined sugar were slow, following the heavy purchases prior to the recent mark-up to 8.50 cents a pound. Coffee futures trended slightly upward in light trading.

Warehouse stocks of coffee showed a decline last week for the first time in more than a month.

Lard was irregular and higher at the close, as rising hog prices exerted a firming pressure. Steels developed a strong undertone following a sharp drop early in the period when values were depressed by heaviest receipts of the year. Slaughter lambs were steady to slightly firmer.

Spot cotton prices continued to hold at or near ceiling levels while futures moved in a narrow range with little net change shown for the week. Trading in futures was rather slow, but activity in spot markets increased moderately. Demand from mills showed some improvement, but trading was confined mostly to small lots for prompt shipment. Export inquiries for cotton were more numerous with a slight increase in sales noted in the Southwest. Consumption of cotton during the five-week period ended May 5 was estimated at 900,000 bales by the New York Cotton Exchange Service Bureau. This was equal to a daily average of 36,500 bales for the period, as compared with a daily rate of 45,600 bales in the previous period, and 36,100 bales for the corresponding period a year ago.

Trade Volume Last Week Again Lifted Modestly Above 1950 Level

Despite numerous promotions and favorable weather throughout much of the nation, consumer spending was generally unchanged in the period ended on Wednesday of last week. What increases there were occurred more frequently with soft goods than with durable goods. Total retail dollar volume was slightly above the level for the corresponding week in 1950, Dun & Bradstreet, Inc., states in its current trade summary.

Shoppers flocked to apparel stores last week to buy a considerable amount, unitwise, in response to widespread markdown promotions; dollar volume, however, was only slightly above the levels of last week and a year earlier. Among those lines in rising demand were popular-priced cotton dresses, cruise wear, lingerie and accessories, as well as men's furnishings. Sports items were also increasingly sold by many clothiers.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 1 to 5% above a year ago. Regional estimates varied from the levels of a year ago by the following percentages:

New England and Pacific Coast 0 to +4; East +3 to -1; South +1 to +5; Midwest and Southwest +2 to +6; and Northwest +3 to +7.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended May 19, 1951, increased 4% from the like period of last year. This compared with an increase of 3% in the previous week, and an increase of 4% for the four weeks ended May 19, 1951. For the year to date department store sales registered an advance of 11%.

Increasing demand for seasonal goods and good price promotions lifted retail trade volume in New York last week to an estimated 5% gain above the like period of 1950.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period of May 19, 1951, advanced 3% from the like period of last year. In the preceding week an increase of 1% was registered above the similar week of 1950. For the four weeks ended May 19, 1951, an increase of 5% was recorded above that of a year ago, and for the year to date, volume advanced 11% from the like period of last year.

\$60,000,000 Bonds of State of Washington Offered to Investors

A syndicate constituting a merger of two groups headed, respectively, by the National City Bank of New York and the Chase National Bank of New York, was the successful bidder for the \$60,000,-000 public school and institutional building construction bonds offered May 23. The winning bid was a price of 100.0094, a net interest cost of about 2.0253% for the bonds to bear interest at varying rates, as follows:

\$40,000,000 public school building bonds consisting of: \$5,091,000 6s, due on May 1 from 1953 to 1955 inclusive; \$20,619,000 1 1/4s, due on May 1 from 1956 to 1965 inclusive; and \$14,290,000 2s, due on May 1 from 1966 to 1971 inclusive.

\$20,000,000 institutional building bonds, consisting of: \$2,546,000 6s, due on May 1 from 1953 to 1955 inclusive; \$10,309,000 1 1/4s, due on May 1 from 1956 to 1965 inclusive; and \$7,145,000 2s, due on May 1 from 1966 to 1971 inclusive.

Bonds Publicly Offered

The Chase National-National City Bank syndicate made public reoffering of the bonds at prices to yield from 1.30% to 2.10%, according to coupon rate and date of maturity. The bonds are interest exempt from present Federal income taxes and legal investments for savings banks and trust funds in New York and certain other States, and for savings banks in Connecticut and Massachusetts.

New Issue Advertisement

The bankers' advertisement of the terms of the public offering of the issue appears on page 22 in this issue of the "Chronicle."

COMING EVENTS

In Investment Field

June 1, 1951 (Baltimore, Md.)

Bond Club of Baltimore annual outing at the Elkridge Club.

June 1, 1951 (Chicago, Ill.)

Bond Club of Chicago annual Field Day at Knollwood Club, Lake Forest, Ill.

June 1, 1951 (Cincinnati, Ohio)

Cincinnati Stock & Bond Club Annual Spring Outing aboard the Delta Queen.

June 1, 1951 (New Jersey)

Bond Club of New Jersey Annual Field Day at the Montclair Golf Club.

June 7, 1951 (New York City)

Security Traders Association of New York Bowling League dinner at Antlers Restaurant.

June 8, 1951 (New York, N. Y.)

Bond Club of New York 27th annual Field Day at the Sleepy Hollow Country Club, Scarborough, N. Y.

June 8-9-10, 1951 (San Francisco, Calif.)

San Francisco Security Traders Association annual spring party at the Diablo Country Club, Diablo, Calif.

June 11-14, 1951 (Jasper Park, Canada)

Investment Dealers Association of Canada Convention at Jasper Park Lodge.

June 14, 1951 (St. Paul Minn.)

Twin City Bond Club annual picnic and Golf tournament at the White Bear Yacht Club—to be preceded by the usual pre-picnic get together Wednesday evening, June 13.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

AMERICAN IRON AND STEEL INSTITUTE:

	Latest Week	Previous Week	Month Ago	Year Ago
Indicated steel operations (percent of capacity)	June 3	102.7	103.6	104.0
Equivalent to—				
Steel ingots and castings (net tons)	June 3	2,053,000	2,071,000	2,079,000
				1,934,900

AMERICAN PETROLEUM INSTITUTE:

Crude oil and condensate output—daily average (bbis. of 42 gallons each)	May 19	6,177,100	6,162,100	6,143,750	5,117,250
Crude runs to stills—daily average (bbis.)	May 19	16,405,000	16,460,000	6,265,000	5,477,000
Gasoline output (bbis.)	May 19	20,847,000	20,962,000	20,060,000	18,580,000
Kerosene output (bbis.)	May 19	2,650,000	2,485,000	2,778,000	2,140,000
Gas, oil, and distillate fuel oil output (bbis.)	May 19	8,353,000	8,035,000	8,172,000	7,068,000
Residual fuel oil output (bbis.)	May 19	9,148,000	8,956,000	8,601,000	7,435,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbis.) at—	May 19	132,742,000	134,522,000	138,891,000	124,669,000
Kerosene (bbis.) at—	May 19	18,725,000	17,740,000	14,698,000	14,648,000
Gas, oil, and distillate fuel oil (bbis.) at—	May 19	48,826,000	47,056,000	42,957,000	39,432,000
Residual fuel oil (bbis.) at—	May 19	37,223,000	36,557,000	35,899,000	39,330,000

ASSOCIATION OF AMERICAN RAILROADS:

Revenue freight loaded (number of cars)	May 19	809,475	808,127	809,520	743,313
Revenue freight received from connections (number of cars)	May 19	682,489	684,567	698,070	655,409

CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:

Total U. S. construction	May 24	\$177,115,000	\$151,792,000	\$284,691,000	\$291,190,000
Private construction	May 24	80,789,000	74,811,000	129,041,000	159,839,000
Public construction	May 24	96,326,000	76,981,000	155,650,000	131,351,000
State and municipal	May 24	69,840,000	45,157,000	62,031,000	63,579,000
Federal	May 24	26,486,000	31,824,000	93,619,000	67,772,000

COAL OUTPUT (U. S. BUREAU OF MINES):

Bituminous coal and lignite (tons)	May 19	9,720,000	9,620,000	10,630,000	9,743,000
Pennsylvania anthracite (tons)	May 19	782,000	845,000	730,000	979,000
Beehive coke (tons)	May 19	138,700	*139,200	129,700	106,100

DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100

May 19	265	318	281	275
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EDISON ELECTRIC INSTITUTE:

Electric output (in 000 kwh.)	May 26	6,559,218	6,673,505	5,893,782
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FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.

May 24	191	171	162	214
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IRON AGE COMPOSITE PRICES:

Finished steel (per lb.)	May 22	4.131c	4.131c	4.131c	3.827c
Pig iron (per gross ton)	May 22	\$52.69	\$52.69	\$52.69	\$46.38
Scrap steel (per gross ton)	May 22	\$43.00	\$43.00	\$43.00	\$34.17

METAL PRICES (E. & M. J. QUOTATIONS):

Electrolytic copper—	May 23	24.200c	24.200c	24.200c	20.200c
Domestic refinery at—	May 23	27.250c	24.425c	24.425c	20.425c
Straits tin (New York) at—	May 23	139,000c	139,000c	142,000c	78,375c
Lead (New York) at—	May 23	17,000e	17,000e	17,000e	12,000c
Lead (St. Louis) at—	May 23	16,800c	16,800c	16,800c	11,800c
Zinc (East St. Louis) at—	May 23	17,500c	17,500c	17,500c	12,000c

MOODY'S BOND PRICES DAILY AVERAGES:

U. S. Government Bonds	May 28	97.44	97.33	97.98	102.56
Average corporate	May 28	111.25	111.44	111.44	115.82
Aaa	May 28	115.24	115.24	115.43	120.63
Aa	May 28	114.46	114.46	114.27	119.20
A	May 28	110.15	110.15	110.52	115.43
Baa	May 28	105.52	105.86	106.04	108.34
Railroad Group	May 28	107.80	108.16	107.80	110.70
Public Utilities Group	May 28	111.07	111.25	111.44	116.80
Industrials Group	May 28	114.85	115.04	115.24	120.02

MOODY'S BOND YIELD DAILY AVERAGES:

U. S. Government Bonds	May 28	2.67	2.68	2.63	2.31
Average corporate	May 28	3.10	3.09	3.09	2.86
Aaa	May 28	2.89	2.89	2.88	2.62
Aa	May 28	2.93	2.93	2.94	2.69
A	May 28	3.16	3.16	3.14	2.88
Baa	May 28	3.42	3.40	3.39	3.26
Railroad Group	May 28	3.29	3.27	3.29	3.13
Public Utilities Group	May 28	3.11	3.10	3.09	2.81
Industrials Group	May 28	2.91	2.90	2.89	2.65

MOODY'S COMMODITY INDEX

May 28	492.3	497.0	517.9	390.9
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NATIONAL PAPERBOARD ASSOCIATION:

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Air Lifts Inc., Washington, D. C.

April 23 (letter of notification) 30,000 "senior shares" (par \$1). Price—\$10 per share. Underwriter—None. Proceeds—for equipment and administrative costs to manufacture aircraft. Office—1835 K St., N. W., Washington 6, D. C.

Alhambra Gold Mines Corp., Hollywood, Calif.
Nov. 1 filed 80,000 shares of common stock. Price—at par (\$1 per share). Underwriter—None. Proceeds—for further development of mine and for working capital.

American Bosch Corp., Springfield, Mass.
May 17 filed 98,000 shares of common stock (par \$2). Price—at the market (approximately \$15 per share). Underwriter—None. Proceeds—to Allen & Co. (owner of 198,000 shares, or 15.1% of outstanding shares).

American-Marietta Co., Chicago, Ill.
May 8 (letter of notification) 7,652 shares of common stock (par \$2) to be offered in exchange for 15,304 shares of common stock (par \$1) of Metal Disintegrating Co., Inc., on a one-for-two basis. Underwriter—None. Office—43 East Ohio St., Chicago, Ill.

American Natural Gas Co. (6/15)
May 24 filed 368,428 shares of common stock (no par), of which company plans to offer 334,935 shares to common stockholders of record June 12, 1951, at rate of one new share for each ten shares held, with an oversubscription privilege; warrants to be mailed on June 15; and rights to expire on June 29. Price—to be supplied by amendment. Underwriter—None. Proceeds—to assist system subsidiaries in financing their property expansion programs.

Appalachian Electric Power Co. (6/26)
May 23 filed \$17,000,000 of first mortgage bonds, due June 1, 1981. Underwriter—to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Union Securities Corp. (jointly); The First Boston Corp.; Harriman Ripley & Co., Inc. Proceeds—to repay bank loans and for new construction. Bids—Expected to be received up to 11 a.m. (EDT) on June 26. ★

Arizona Edison Co. (6/5)
April 24 filed 40,000 shares of common stock (par \$5). Price—to be supplied by amendment. Underwriters—William R. Staats Co., Los Angeles, Calif.; A. C. Allyn & Co., Inc., Chicago, Ill.; and Refsnes, Ely, Beck & Co., Phoenix, Ariz. Proceeds—to repay bank loans and for new construction. ★

Armstrong Rubber Co., West Haven, Conn.
May 21 (letter of notification) 1,000 shares of 4 3/4% cumulative convertible preferred stock (par \$50) and 1,000 shares of class A common stock (no par). Price—the preferred at par and the common at \$25 per share. Underwriter—Grunthal & Co., New York. Proceeds—to Frederick Machlin, Vice-President of the company.

Arwood Precision Casting Corp.
April 18 (letter of notification) 4,000 shares of 5 1/2% cumulative non-convertible preferred stock being offered to stockholders and public up to July 1, 1951. Price—at par (\$25 per share). Underwriter—None. Proceeds—for working capital. Office—70 Washington Street, Brooklyn 1, N. Y.

Ashland Oil & Refining Co., Ashland, Ky.
May 21 (letter of notification) 1,000 shares of common stock (par \$1). Price—at the market (approximately \$35 per share). Underwriter—None. Proceeds—for working capital. Office—1409 Winchester Ave., Ashland, Ky.

Atlantic Oil Corp., Tulsa, Okla.
May 15 (letter of notification) 43,046 shares of common stock to be issued at par (\$5 per share) in part payment of additional producing oil properties in Kansas and Oklahoma. Office—629 Kennedy Bldg., Tulsa 3, Okla.

Berry Metal Co., Seattle, Wash.
May 22 (letter of notification) 298,508 shares of preference stock (par 25 cents) and 149,200 shares of management stock (par 1 cent), the latter to be issued to Walter Berry for services. Price—for preference stock, \$1 per share, and for management stock, 1 cent per share. Underwriter—None. Proceeds—for equipment and working capital. Office—300 Wall Street, Seattle 1, Wash.

Bigelow-Sanford Carpet Co., Inc. (6/20)
May 16 filed 100,000 shares of cumulative preferred stock, series of 1951 (par \$100), of which 39,604 1/2 shares are issuable to holders of 26,403 shares of 6% preferred stock on the basis of 1 1/2 shares for each preferred share held. The dividend rate will be not less than 4 1/2% nor more than 5%. Price—to be supplied by amendment. Underwriters—Harriman Ripley & Co., Inc.; Kidder, Peabody & Co., and F. S. Moseley & Co. Proceeds—for general corporate purposes. Stockholders will vote June 19 on approving issue. ★

Burlington Mills Corp.
March 5 filed 300,000 shares of convertible preference stock (par \$100). Price—to be supplied by amendment. Underwriter—Kidder, Peabody & Co., New York. Proceeds—for additions and improvements to plant and equipment. Offering date postponed.

Byron Jackson Co., Vernon, Calif.
May 18 filed 100,000 shares of capital stock (par \$10). Price—to be supplied by amendment. Underwriters—Blyth & Co., Inc. and Elworthy & Co. (of Los Angeles and San Francisco). Proceeds—to construct and equip a plant in the Province of Ontario, Canada. Statement subsequently withdrawn. ★

ITEMS REVISED EACH WEEK

The data in this compilation is brought up-to-date each week in accordance with later information made available by the SEC or other reliable sources. Where changes have been made during the past week, this is indicated by the symbol (★) appearing at the end of the respective listings. As heretofore, the symbol (●) preceding the name of the prospective borrower indicates that it is an entirely new listing.

• Calaveras Cement Co. (6/12)

May 23 filed 118,066 shares of common stock (par \$5) to be offered to common stockholders on basis of one new share for each two shares held on June 12. Price—\$10 per share. Underwriter—Blyth & Co., Inc., and Hooker & Fay, both of San Francisco, Calif. Proceeds—to pay part of cost of plant expansion program.

California Oregon Power Co. (6/6)

May 21 filed 250,000 shares of common stock (par \$20). Price—to be supplied by amendment. Underwriters—Blyth & Co., Inc., and The First Boston Corp. Proceeds—to repay bank loans and for new construction.

California Oregon Power Co. (6/12)

May 21 filed \$6,000,000 of first mortgage bonds due June 1, 1981. Underwriter—to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Smith, Barney & Co. and Carl M. Loeb, Rhoades & Co. (jointly); Shields & Co.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); White, Weld & Co.; Blyth & Co., Inc., The First Boston Corp. and Salomon Bros. & Hutzler (jointly). Proceeds—to repay bank loans and for new construction. Bids—Expected to be received on June 12. ★

• Calvan Consolidated Oil & Gas Co., Ltd. (6/11-16)

May 24 filed 1,000,000 shares of capital stock (par \$1—Canadian). Price—to be supplied by amendment. Underwriter—Hemphill, Noyes, Graham, Parsons & Co., New York, as to 875,000 shares and Gardiner, Watson & Co., Toronto, Canada, as to 125,000 shares. Proceeds—for exploration and development of properties in Canada.

Canam Copper Co., Ltd., Vancouver, B. C., Canada

April 20 filed 200,000 shares of capital stock. Price—at par (\$1 per share). Underwriter—Harry M. Forst. Proceeds—for exploration and development work.

• Carrier Corp. (6/12)

May 24 filed 216,575 shares of common stock (par \$10) to be offered common stockholders of record June 12, 1951, at rate of one new share for each three shares held; rights to expire on June 26. Price—to be supplied by amendment. Underwriter—Harriman Ripley & Co., Inc., and Hemphill, Noyes, Graham, Parsons & Co., New York. Proceeds—to help finance the construction and equipment of a new building and for other general corporate purposes.

Central Louisiana Electric Co., Inc.

Jan. 25 filed 250,297 shares of common stock (par \$10) and 21,480 shares of 4.5% preferred stock (par \$100), of which the preferred stock and 214,800 shares are being offered in exchange for shares of common stock of Gulf Public Service Co., Inc., on basis of 4/10ths of a share of common and 1/25th of a share of preferred for each Gulf common share held as of record March 13. This offer will expire on June 15 and will not be extended. Of the remaining 35,497 common shares, 20,348 shares are offered to Central Louisiana common stockholders of record May 1, 1951 at \$26.50 per share on basis of one share for each 17 shares held, with rights to expire on June 4. Underwriter—None. Purpose—to acquire not less than 429,600 shares (80%) of Gulf common stock. Statement effective March 12.

Chevron Petroleum, Ltd., Toronto, Canada

March 14 filed 900,000 shares of common stock (par \$1) to be offered "as a speculation." Price—50 cents per share. Underwriter—Willis E. Burnside & Co., Inc., New York. Proceeds—to take up option and develop properties. Offering—not expected before the middle of June.

Cleveland Electric Illuminating Co. (6/19)

May 23 filed \$25,000,000 of first mortgage bonds due June 1, 1986. Underwriter—to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; Blyth & Co., Inc.; White, Weld & Co.; The First Boston Corp.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Equitable Securities Corp. Proceeds—for new construction. Bids—Expected to be received on June 19. ★

• Colonial Acceptance Corp., Chicago, Ill.

May 23 (letter of notification) 9,500 shares of class A common stock (par \$1). Price—\$4.37 1/2 per share. Underwriter—Straus & Blosser, Chicago, Ill. Proceeds—to selling stockholder.

• Commercial Credit Co.

May 29 filed \$40,000,000 notes due 1961. Price—to be supplied by amendment. Underwriters—Kidder, Peabody & Co. and The First Boston Corp., New York. Proceeds—to increase and maintain working capital and a portion of the proceeds ultimately will be used for the payment of a \$35,000,000 1 1/2% note which matures Aug. 1, 1951.

Consolidated Cigar Corp., New York

March 9 filed 50,000 shares of cumulative preferred stock,

series of 1951 (no par). Price—to be supplied by amendment. Underwriter—Eastman, Dillon & Co., New York. Proceeds—to prepay short-term bank loans and for working capital. Offering date postponed.

Consolidated Textile Co., Inc., New York

Dec. 27 filed 220,000 shares of capital stock (par 10 cents), offered in exchange for 200,000 shares of common stock of Bates Manufacturing Co. (Consolidated now owns 51,400 shares, or approximately 13% of the 391,500 outstanding Bates shares) on basis of 11 shares of Consolidated for 10 shares of Bates stock. Exchange offer to expire June 29. Statement effective March 2.

• Continental Can Co., Inc.

May 24 filed 230,000 shares of common stock (par \$20) to be purchased in open market and offered for subscription by executives and employees of the company. Price—to be supplied by amendment. Proceeds—None.

Continental Car-Nar-Var Corp., Brazil, Ind.

March 5 (letter of notification) 150,000 shares of common (voting) stock (par \$1). Price—\$2 per share. Underwriters—Sills, Fairman & Harris, Inc., Chicago, and Gearhart, Kinnard & Otis, Inc., New York. Proceeds—for working capital and general corporate purposes. Temporarily deferred.

Cuban-Venezuelan Oil Voting Trust

March 29 filed 1,500,000 units of voting trust certificates representing one share of one and two cent par common stock in 24 companies. Price—\$2 per unit. Underwriter—None. Proceeds—for drilling and exploration expenses and working capital.

Cudahy Packing Co.

March 23 filed \$10,000,000 sinking fund debentures due April 1, 1966. Price—to be supplied by amendment. Underwriter—Halsey, Stuart & Co. Inc. Proceeds—to reduce bank loans by \$9,000,000, and the balance added to working capital. Offering—Indefinitely deferred.

Culver Corp., Chicago, Ill.

Oct. 23 filed 132,182 shares of common stock (par \$5), of which 4,818 shares were subscribed for by stockholders and 127,364 shares are to be offered to public. Price—to stockholders at \$5 and to public at about \$6.77 per share. Underwriter—Dealers may be underwriters. Proceeds—for investments in railroad and kindred securities. Statement effective April 11. Offering—Temporarily postponed. ★

Cumberland (Md.) Motor Express Corp.

April 26 (letter of notification) \$150,000 of five-year 5% notes and 50,000 shares of common stock (par \$1) to be offered in units of \$1,500 of notes and 500 shares of stock. Price—\$2,000 per unit. Underwriter—F. S. Yantis & Co., Inc., Chicago, Ill. Proceeds—to retire three-year 5% promissory note. Office—Springdale and Third St., Cumberland, Md. Offering—May be made privately.

Deardorff Oil Corp., Oklahoma City, Okla.

May 18 (letter of notification) 200,000 shares of common stock (par 10 cents). Price—70 cents per share. Underwriter—None. Proceeds—to pay obligations. Office—219 Fidelity Bldg., Oklahoma City, Okla.

Drewrys Ltd. U. S. A., Inc., South Bend, Ind.

May 14 (letter of notification) 6,915 shares of common stock (par \$1). Price—\$14 per share. Underwriter—Bear, Stearns & Co., New York. Proceeds—to Carleton S. Smith, the selling stockholder.

Elgin Sweeper Co., Elgin, Ill.

April 18 (letter of notification) 38,864 shares of common stock (no par) being offered to common stockholders of record April 28 on basis of one share for each two shares held, with an oversubscription privilege; rights to expire about June 11. Price—\$5 per share. Underwriter—None. Proceeds—for working capital. Office—5 Oak Street, Elgin, Ill.

Erie Resistor Corp., Erie, Pa. (6/13)

May 21 filed 84,000 shares of common stock (par \$5), of which 19,593 shares are for the account of the company and 64,407 for selling stockholders. Price—to be supplied by amendment. Underwriter—Fulton, Reid & Co., Cleveland, O. Proceeds—for working capital.

Farmers Mutual Telephone Co., Madison, Minn.

May 9 (letter of notification) 2,600 shares of common stock and 1,200 shares of preferred stock. Price—\$35 per share for common and \$50 for preferred. Underwriter—None. Proceeds—to rebuild rural telephone system. Office—Cerro Gordo, Madison, Minn.

Federal Machine & Welder Co., Warren, O.

May 22 (letter of notification) 60,000 shares of common



stock (par \$1) to be issued at \$5 per share in payment of trade accounts due to creditors. Office—Overland Avenue, Warren, O.

• **Financial Industrial Fund, Inc., Denver, Colo.**
May 28 filed 9,000 systematic investment certificates (\$10,800,000 aggregate), 900 cumulative investment certificates (\$900,000 aggregate) and 400,000 shares of capital stock. Underwriter—Investment Service Corp., Denver. Proceeds—For investment.

• **Forbes & Wallace, Inc., Springfield, Mass.**
May 21 (letter of notification) 1,000 shares of class B non-voting stock (no par). Price—\$20 per share. Underwriters—Tiffit Brothers of Springfield, Mass., and F. S. Moseley & Co., Boston, Mass. Proceeds—To Andrew B. Wallace, President of the company, who is the selling stockholder.

• **Gas Service Co., Kansas City, Mo. (6/19)**
May 24 filed \$5,400,000 of first mortgage bonds due 1971. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., and Kidder, Peabody & Co. (jointly); Lehman Brothers; The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Union Securities Corp. and Harriman Ripley & Co., Inc. (jointly). Proceeds—For new construction. Bids—Expected to be received June 19.

• **General Public Utilities Corp. (6/18)**
May 16 filed 504,657 shares of common stock (par \$5) to be offered to stockholders at rate of one share for each 15 shares held as of June 14; with rights to expire on July 9. Price—To be supplied by amendment. Underwriter—None. Proceeds—To repay bank loans and for general corporate purposes. ★

• **Georgia Power Co. (6/5)**
May 4 filed \$20,000,000 of new first mortgage bonds due June 1, 1981. Underwriters—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Lehman Bros.; Harriman Ripley & Co. Inc.; Shields & Co. and Salomon Bros. & Hutzler (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); The First Boston Corp.; Kuhn, Loeb & Co.; Union Securities Corp. and Equitable Securities Corp. (jointly). Proceeds—For construction program. Bids—To be opened at 11 a.m. (EDT) on June 5. Statement effective May 23. ★

• **Glenmore Distilleries Co.**
Dec. 28 filed 159,142 shares of class B common stock (par \$1). Price—To be filed by amendment. Underwriter—Glore, Forgan & Co., New York. Proceeds—For working capital and general corporate purposes. Offering—Expected to be withdrawn and new filing expected to be made covering 30,000 shares of preferred stock (par \$100), with warrants attached.

• **Goebel (Adolf), Inc.**
May 14 (letter of notification) 10,000 shares of common stock (par \$1). Price—At the market (about \$5.25 per share). Underwriter—The First Guardian Securities Corp., New York. Proceeds—To Anthony De Angelis, President, the selling stockholder.

• **Golconda Mines Ltd., Montreal, Canada**
April 9 filed 750,000 shares of common stock. Price—At par (\$1 per share). Underwriter—George F. Breen, New York. Proceeds—For drilling expenses, repayment of advances and working capital. Offering—Date not set.

• **Hilton Hotels Corp., Chicago, Ill.**
March 30 filed 153,252 shares of common stock (par \$5) now offered to holders of common stock of Hotel Waldorf-Astoria Corp. in exchange for their holdings of such stock on a share-for-share basis; offer expires on June 27. Dealer-Manager—Carl M. Loeb, Rhoades & Co., New York. ★

• **Hudson Pulp & Paper Corp. (6/11-16)**
May 23 filed 220,000 shares of class A common stock (par \$1), of which 20,000 shares are to be offered by selling stockholders. Price—To be supplied by amendment. Underwriter—Lee Higginson Corp., New York. Proceeds—For General corporate purposes.

• **Idaho Power Co. (6/4)**
May 14 filed 35,000 shares of 4% preferred stock (par \$100). Price—At par. Underwriter—Wegener & Daly Corp., Boise, Idaho. Proceeds—For new construction. ★

• **Israel American National Construction Corp.**
May 18 (letter of notification) 7,719 shares of preferred stock. Price—At par (\$25 per share). Underwriter—None. Proceeds—For improvements of buildings in Israel. Office—424 Chapman Bldg., Los Angeles 14, Calif.

• **Jersey Central Power & Light Co.**
Feb. 21 filed \$1,500,000 first mortgage bonds due in 1981. Proceeds—For expansion program. Bids—Only one bid was received by company on March 27, from Halsey, Stuart & Co. Inc., which was returned unopened. Offering—Postponed indefinitely. Statement effective March 14.

• **Jersey Central Power & Light Co.**
Feb. 21 filed 40,000 shares of cumulative preferred stock (par \$100). Proceeds—From sale of preferred, together with proceeds to be received from the sale of 350,000 additional common shares to General Public Utilities Corp., the parent, will be used for new construction. Bids—Only one bid, from Union Securities Corp. and Salomon Bros. & Hutzler (jointly), was received March 27, which was returned unopened. Statement effective March 14. Amendment—On May 8 SEC granted an exemption from competitive bidding. Preferred may be privately placed, but reported, temporarily abandoned.

NEW ISSUE CALENDAR

June 1, 1951

Kentucky Utilities Co.	Common
Chicago, Milwaukee, St. Paul & Pacific RR.	Equip. Trust Cts.
Noon (CDT)	
Idaho Power Co.	Preferred
New England Gas & Electric Association	Common
Wilton Woolen Co.	Common

June 5, 1951

Arizona Edison Co.	Common
Georgia Power Co., 11 a.m. (EDT)	Bonds
Manning, Maxwell & Moore, Inc.	Common
Mays (J. W.), Inc.	Common
Teleprompter Corp.	Common
Tracerlab, Inc.	Common
Yale & Towne Mfg. Co.	Common

June 6, 1951

Buffalo Electro-Chemical Co., Inc.	Common
California Oregon Power Co.	Common
Pennsylvania-Reading Seashore Lines	
Noon (EDT)	Bonds

June 7, 1951

Rheem Manufacturing Co.	Preferred
Calvan Consolidated Oil & Gas Co., Ltd.	Common
Hudson Pulp & Paper Corp.	Common
Oswego Falls Corp.	Preferred
Sangamo Electric Co.	Common
Squibb (E. R.) & Sons	Common

June 12, 1951

California Oregon Power Co.	Bonds
Calaveras Cement Co.	Common
Carrier Corp.	Common
Chicago, St. Paul, Minneapolis & Omaha Ry.	Equip. Trust Cts.
Noon (CDT)	
Kansas Power & Light Co.	Common
New England Telephone & Telegraph Co.	Common
Public Service Co. of Colorado	Common
Public Service Co. of New Hampshire	Common
Noon (EDT)	Bonds
Southeastern Public Service Co.	Preference
Victoreen Instrument Co.	Common

June 13, 1951

Erie Resistor Corp.	Common
United Stores Corp.	Preferred

June 14, 1951

Texas & Pacific Ry.	Equip. Trust Cts.
American Natural Gas Co.	Common

June 15, 1951

General Public Utilities Corp.	Common
Kropp Forge Co.	Common

June 18, 1951

Missouri Power & Light Co.	Common
11 a.m. (CDT)	Bonds
North Penn Gas Co.	Debentures

June 19, 1951

Cleveland Electric Illuminating Co.	Bonds
Gas Service Co.	Bonds
Glenmore Distilleries Co.	Preferred
Mission Corp.	Debentures
Peoples Gas Light & Coke Co.	
11 a.m. (CDT)	Bonds

June 20, 1951

Bigelow-Sanford Carpet Co., Inc.	Preferred
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June 24, 1951

Public Finance Service, Inc.	Debentures
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June 26, 1951

Appalachian Electric Power Co.	Bonds
11 a.m. (EDT)	

June 29, 1951

United Gas Corp.	Common
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July 17, 1951

Mississippi Power Co.	Preferred
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September 11, 1951

Alabama Power Co.	Bonds
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Kansas Power & Light Co. (6/12)
May 22 filed 256,842 shares of common stock (par \$8.75). Price—To be supplied by amendment. Underwriter—The First Boston Corp., New York. Proceeds—To repay bank loan and for new construction.

• **Kentucky-Utah Mining Co.**
May 17 (letter of notification) 596,061 shares of assessable capital stock (par 10 cents), of which 96,091 shares are reserved for issuance upon exercise of options granted May 8, 1951, to two individuals. Price—11½ cents per share. Underwriter—W. D. Nebecker & Co., Salt Lake City, Utah. Proceeds—To explore and develop mine properties. Office—310 Pacific Nat'l Life Bldg., Salt Lake City, Utah.

• **Kentucky Utilities Co. (6/1)**
May 14 filed 260,071 shares of common stock (par \$10) to be offered to common stockholders of record June 1, 1951 at rate of one share for each seven shares held; rights to expire on June 18. Price—To be supplied by amendment. Underwriters—Blyth & Co., Inc., New York, and J. J. B. Hilliard & Son, Louisville, Ky. Proceeds—For property additions and new construction.

• **Kresge (S. S.) Co., Detroit, Mich.**
May 10 (letter of notification) approximately 7,690 shares

of common stock (par \$10). Price—\$39 per share. Underwriter—Watling, Lerchen & Co., Detroit, Mich. Proceeds—To Estate of Anna E. Kresge, the selling stockholder.

• **Kropp Forge Co., Cicero, Ill. (6/18-23)**
May 25 filed 123,000 shares of common stock (par 33½¢), of which 9,276 shares will be offered for the account of Raymond B. Kropp (Executive Vice-President and Treasurer). Price—To be supplied by amendment. Underwriters—Gearhart, Kinnard & Otis, Inc., and L. D. Sherman & Co., both of New York; and Morgan & Co., Los Angeles, Calif. Proceeds—To be added to working capital.

• **Loyalty Oils, Ltd., Edmonton, Canada**
April 16 filed 750,000 shares of capital stock (par \$1). Price—50 cents per share. Underwriter—James T. Chiles of Denver, Colo., who will conduct offering to public by means of a mail campaign directed from Edmonton, Canada. Proceeds—To carry on drilling program. Withdrawal—A request to withdraw statement was filed with the SEC on May 22. ★

• **Manning, Maxwell & Moore, Inc. (6/5)**
May 16 filed 150,000 shares of common stock (par \$12.50), to be offered to stockholders of record who have not waived their preemptive rights at rate of 15/44ths of a share held, as of record about June 5, 1951; rights to expire on June 15. Price—To be supplied by amendment. Underwriters—Hornblower & Weeks and Clark, Dodge & Co., New York. Proceeds—To redeem \$281,000 of preferred stock and for working capital. ★

• **Mays (J. W.), Inc., Brooklyn, N. Y. (6/5)**
April 27 filed 50,000 shares of common stock (par \$1). Price—To be supplied by amendment. Underwriter—Carl M. Loeb, Rhoades & Co. and Lehman Brothers, New York. Proceeds—To Joe Weinstein, President of the company, the selling stockholder. ★

• **McCormick & Co., Inc., Baltimore, Md.**
May 3 (letter of notification) 7,795 shares of non-voting common stock (no par) being offered to employees and stockholders up to and including June 6 subject to allotment. Price—\$25 per share. Underwriter—Alex, Brown & Sons, Baltimore, Md. Proceeds—For working capital. Office—414 Light Street, Baltimore 2, Md.

• **McGraw (F. H.) & Co., Hartford, Conn.**
May 17 (letter of notification) 4,650 shares of common stock (par \$2). Price—\$9 per share. Underwriter—Granberry, Marache & Co., New York. Proceeds—For working capital.

• **Mercantile Acceptance Corp. of California**
May 18 (letter of notification) 4,881 shares of first preferred stock. Price—At par (\$20 per share). Underwriter—Guardian Securities Corp. Proceeds—For general corporate purposes.

• **Mines Management, Inc., Spokane, Wash.**
May 18 (letter of notification) 125,000 shares of common stock. Price—25 cents per share. Underwriter—Louis Payne of Spokane, Wash. Proceeds—To develop mines in Stevens County, Wash. Offices—612 Chronicle Bldg., Spokane, Wash., and 507 Bank St., Wallace, Idaho.

• **Mission Corp. (6/19)**
May 24 filed \$12,000,000 of 15-year sinking fund debentures due June 1, 1966. Price—To be supplied by amendment. Underwriter—Eastman, Dillon & Co., New York. Proceeds—To repay bank loans incurred through purchase, in open market, of Tide Water Associated Oil Co. stock.

• **Missouri Power & Light Co. (6/18)**
May 17 filed \$4,000,000 of first mortgage bonds due 1981. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. Inc.; Equitable Securities Corp. and Harris, Hall & Co. (Inc.) (jointly); Otis & Co., Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Carl M. Loeb, Rhoades & Co. and American Securities Corp. (jointly); White, Weld & Co. and Shields & Co. (jointly). Proceeds—To reimburse treasury for expenditures made for construction program and for general corporate purposes. Bids—Expected to be received up to 11 a.m. (CDT) on June 18.

• **Myers Motor Supply Co., Joplin, Mo.**
May 22 (letter of notification) 150 shares of common stock to be offered to stockholders. Any subscribed shares to be then offered to employees and officers. Price—At par (\$100 per share). Underwriter—None. Proceeds—For general corporate purposes. Office—501 Wall Street, Joplin, Mo.

• **National Research Corp., Cambridge, Mass.**
April 16 (letter of notification) 2,000 shares of common stock (par \$1). Price—\$27 per share. Underwriter—Paine, Webber, Jackson & Curtis, Boston, Mass. Proceeds—To William A. Coolidge, the selling stockholder.

• **National Tea Co., Chicago, Ill.**
May 29 filed 120,000 shares of cumulative preference stock, convertible series (par \$100). Price—To be supplied by amendment. Underwriter—Hemphill, Noyes, Graham, Parsons & Co., New York and Chicago. Proceeds—To retire bank loans and outstanding \$50 par value preferred stock.

• **New England Gas & Electric Association (6/4)**
May 16 filed 197,243 common shares of (par \$8) beneficial interest to be offered to common stockholders of record May 31 on basis of one share for each eight shares then held; rights will expire on June 20. Price—Maximum of \$15 per share. Underwriter—The First Boston Corp. to act as dealer-manager. Proceeds—To pay short-term notes and acquire stock of subsidiaries.

• **New England Telephone & Telegraph Co. (6/12)**
May 23 filed 777,850 shares of capital stock to be offered

Continued on page 40

Continued from page 39

to stockholders of record June 8 in ratio of one share for each two shares held; rights to expire July 10 will be issued on June 12. **Price**—At par (\$100 per share). **Underwriter**—None. **Proceeds**—To reduce outstanding temporary borrowings. ★

● **New Nancy Hanks Mines, Inc., Reno, Nev.**
May 16 (letter of notification) 25,000 shares of preferred stock (par \$1) and 250,000 shares of common stock (par 1 cent) to be offered in units of one share of preferred and 10 shares of common stock. **Price**—\$1.10 per share. **Underwriter**—None. **Proceeds**—For mine equipment and shaft. **Office**—139 No. Virginia Street, Reno, Nev.

North American Acceptance Corp.
March 20 (letter of notification) 15,000 shares of 60-cent cumulative convertible preferred stock (par \$5). **Price**—\$10 per share. **Underwriter**—Michael Investment Co., Inc., Providence, R. I. **Proceeds**—For working capital. **Offering**—Postponed temporarily.

● **North American Acceptance Corp.**
May 28 (letter of notification) a maximum of 9,317 shares of 60-cent dividend series preferred stock (par \$5) to be issued in payment for acquisition of assets of Citizens Loan Corp. **Office**—765 West Lancaster Avenue, Bryn Mawr, Pa.

North Penn Gas Co. (6/18)
May 1 filed \$2,700,000 of debentures due 1971. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; A. C. Allyn & Co., Inc.; Drexel & Co.; The First Boston Corp.; Lehman Brothers; Smith, Barney & Co.; Equitable Securities Corp.; Union Securities Corp. **Proceeds**—To repay bank loans. ★

Northern Illinois Corp., DeKalb, Ill.
May 7 (letter of notification) 3,080 shares of \$1.50 cumulative preferred stock (no par) being offered to certain stockholders of record April 20, 1951, subject to allotment. The subscription privilege will expire on June 14, 1951. **Price**—\$23.50 per share. **Underwriter**—None. **Proceeds**—For working capital to be used to make loans. ★

Norwich Pharmacal Co.
May 2 (letter of notification) 2,100 shares of common stock (par \$2.50). **Price**—At market (approximately \$19 per share). **Underwriter**—Reynolds & Co., New York. **Proceeds**—To Warren E. Eaton, the selling stockholder.

Ohio Edison Co.
March 30 filed 150,000 shares of pfd. stock (par \$100). **Underwriters**—To be determined by competitive bidding. Probable bidders: Morgan Stanley & Co.; Lehman Brothers and Bear, Stearns & Co. (jointly); W. C. Langley & Co.; Glore, Forgan & Co. and White, Weld & Co. (jointly); The First Boston Corp. **Proceeds**—For construction program. **Bids**—Indefinitely postponed. Were to have been submitted up to 11:30 a.m. (EDT) on May 2.

● **Oil Producers & Refiners, Inc., Salt Lake City, Utah**
May 22 (letter of notification) 600,000 shares of common stock. **Price**—At par (50 cents per share). **Underwriter**—none. **Proceeds**—To acquire oil royalties. **Office**—404 Boston Bldg., Salt Lake City, Utah.

Olympic Radio & Television, Inc.
April 16 (letter of notification) 8,800 shares of common stock (par \$1). **Price**—At the market. **Underwriter**—None, but Van Alstyne, Noel & Co., New York, will act as broker. **Proceeds**—To two selling stockholders.

● **Oswego Falls Corp., Fulton, N. Y. (6/11)**
May 25 filed 96,000 shares of 5% convertible second preference stock (par \$30) to be offered to common stockholders of record June 11, 1951, at rate of one preferred share for each five common shares held. **Price**—To be supplied by amendment. **Underwriter**—Hornblower & Weeks, New York. **Proceeds**—For working capital.

Pacific Western Oil Corp.
May 10 filed 200,000 shares of capital stock (par \$.4). **Price**—At the market (based on quotations on New York Stock Exchange at time of sale). **Underwriter**—None. **Proceeds**—To J. Paul Getty, President of the company, who is the selling stockholder.

Pan American Milling Co., Las Vegas, Nev.
Jan. 24 filed 200,000 shares of common stock. **Price**—At par (\$1 per share). **Underwriter**—None. **Proceeds**—To purchase machinery and equipment, to construct a mill in Mexico and for general corporate purposes.

Peabody Coal Co.
March 26 filed 160,000 shares of 5½% prior preferred stock (par \$25). **Price**—To be supplied by amendment. **Underwriter**—A. C. Allyn & Co., Inc., Chicago, Ill. **Proceeds**—For construction program. **Offering**—Indefinitely postponed.

Peoples Gas Light & Coke Co. (6/19)
May 22 filed \$25,000,000 of first and refunding mortgage bonds, series H, due June 1, 1981. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and White, Weld & Co. (jointly); The First Boston Corp. **Proceeds**—To repay bank loans, for new construction and for additional investment (estimated at \$7,700,000) in equity securities of Texas Illinois Natural Gas Pipeline Co., a subsidiary. **Bids**—To be received up to 11 a.m. (CDT) on June 19 at Room 1625, 122 So. Michigan Avenue, Chicago, Ill. ★

Pepsi-Cola Bottling Co. of Wash., D. C., Inc.
May 11 (letter of notification) 5,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Underwriter**—None, but Ferris & Co., Washington, D. C., will act as broker for over-the-counter sales. **Proceeds**—To Bernard B. Schwartzmar, the selling stockholder.

ITEMS REVISED EACH WEEK

The data in this compilation is brought up-to-date each week in accordance with later information made available by the SEC or other reliable sources. Where changes have been made during the past week, this is indicated by the symbol (★) appearing at the end of the respective listings. As heretofore, the symbol (●) preceding the name of the prospective borrower indicates that it is an entirely new listing.

Plywood, Inc., Detroit, Mich.

May 3 (letter of notification) 5,000 shares of common stock (par \$1). **Price**—\$4.25 per share. **Underwriter**—Baker, Simonds & Co., Detroit, Mich. **Proceeds**—To Emery Investment Co., the selling stockholder. **Office**—4445 Bellevue Avenue, Detroit 7, Mich. Reported sold to employees of company. ★

Public Finance Service, Inc., Phila., Pa. (6/24)

April 30 (letter of notification) \$250,000 of 6% cumulative debentures, 1950 series to be offered to present debenture holders. **Price**—At par (in denominations of \$100 each). **Underwriter**—None. **Proceeds**—For additional operating capital. **Office**—18 West Chelten Ave., Philadelphia 44, Pa.

Public Service Co. of Colorado (6/12)

May 24 filed 274,027 shares of common stock (par \$10), of which 249,116 shares are to be offered to common stockholders on a one-for-ten basis and 24,911 shares to employees of company. **Price**—To be supplied by amendment. **Underwriters**—The First Boston Corp., New York; and Boettcher & Co. and Bosworth, Sullivan & Co., Inc., both of Denver, Colo. **Proceeds**—To be applied toward construction program.

Public Service Co. of New Hampshire (6/12)

May 11 filed \$3,000,000 first mortgage bonds, series F, due June 1, 1981. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Otis & Co.; The First Boston Corp. and Coffin & Burr, Inc. (jointly); Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly); Equitable Securities Corp.; Carl M. Loeb, Rhoades & Co. **Proceeds**—For construction program. **Bids**—Present plans are to mail bidding papers on or about June 1 and to open bids at noon (EDT) on June 12.

Rheem Manufacturing Co. (6/7)

May 23 filed 100,000 shares of 4½% cumulative convertible preferred stock (par \$100), convertible into common stock until June 1, 1961. Of the total, 70,000 share are to be publicly offered and 30,000 shares placed privately with Bethlehem Steel Corp. **Price**—To be supplied by amendment. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To finance in part a program of capital improvements and additions and for general corporate purposes.

Sangamo Electric Co. (6/11-16)

May 21 filed 111,000 shares of common stock (par \$10). **Price**—To be supplied by amendment. **Underwriter**—Paul H. Davis & Co., Chicago, Ill. **Proceeds**—To reduce bank loans and for working capital. ★

Sattler's, Inc., Buffalo, N. Y.

March 22 filed 200,000 shares of common stock (par \$1). **Price**—To be supplied by amendment. **Underwriter**—Hornblower & Weeks, New York. **Proceeds**—To Charles Hahn, Jr., President, who is the selling stockholder. **Withdrawal**—Registration statement withdrawn on May 23. ★

Schubert Publications, Inc., Chicago, Ill.

May 23 (letter of notification) 8,000 shares of common stock (par \$1) and 470 shares of 6% cumulative preferred stock (par \$100). **Price**—At par. **Underwriter**—None. **Proceeds**—For working capital. **Office**—220 So. Michigan Avenue, Chicago 3, Ill.

Smart & Final Co., Ltd., Los Angeles, Calif.

March 22 (letter of notification) 12,561 shares of common stock (no par). **Price**—\$7.25 per share. **Underwriter**—Pacific Coast Securities Co., San Francisco, Calif. **Proceeds**—To selling stockholders. **Office**—4510 Colorado Blvd., Los Angeles 53, Calif.

South State Uranium Mines Ltd. (Canada)

April 9 filed by amendment 384,000 shares of capital stock. **Price**—At par (\$1 per share). **Underwriter**—Optionee—Robert Irwin Martin of Toronto. **Proceeds**—For commissions, exploration and development expenses, and working capital.

Southeastern Public Service Co. (6/12)

May 22 filed 20,000 shares of 6% cumulative convertible preference stock, series A (par \$25). **Price**—To be supplied by amendment. **Underwriter**—Bioren & Co., Philadelphia, Pa. **Proceeds**—For additional investment in stock of subsidiaries. ★

Southwestern Investment Co.

April 30 filed 15,000 shares of \$1 cumulative sinking fund preferred stock (no par) being offered first to stockholders from May 21 to June 5. **Price**—\$20 per share. **Underwriter**—The First Trust Co. of Lincoln, Neb. **Proceeds**—For working capital. Statement effective May 21. ★

Southwestern Investment Co.

April 30 filed 22,288 shares of common stock (no par) offered first to common stockholders from May 21 to June 5, with an oversubscription privilege and a maximum of 4,288 shares to employees of company (latter not underwritten). **Price**—\$20 per share. **Underwriters**—Schneider, Bernet & Hickman, Dallas, Texas; G. H. Walker & Co., St. Louis, Mo.; and Dewar, Robertson & Pancoast, San Antonio, Texas. **Proceeds**—For working capital. Statement effective May 21. ★

Spiegel, Inc., Chicago, Ill.

May 2 filed 85,850 shares of common stock (par \$2) to

be offered to holders of cumulative preferred stock upon exercise of stock warrants on basis of one share of common stock for each share of preferred stock at \$13.50 per share on or before May 31, 1953; \$15 per share thereafter and on or before Nov. 30, 1954; and \$16.50 per share thereafter and on or before May 31, 1956. **Proceeds**—For general corporate purposes.

Squibb (E. R.) & Sons, New York (6-11/16)

May 22 filed 300,000 shares of common stock (par \$1), to be split up on a two-for-one basis following approval of stockholders on June 22 of a proposal to change each \$1 par share into two 50-cent par shares. **Price**—To be supplied by amendment. **Underwriter**—Harriman Ripley & Co., Inc., New York. **Proceeds**—For plant additions and improvements. ★

Sterling Engine Co., Buffalo, N. Y.

April 27 (letter of notification) an aggregate of not to exceed 16,000 shares of common stock (par 10 cents). **Price**—At market (about \$2.25 per share). **Underwriter**—None, but Bach & Co. will act as broker. **Proceeds**—To Addison F. Vare, the selling stockholder.

Stevens (J. P.) & Co., Inc.

April 27 filed 100,000 shares of capital stock (par \$15) to be offered under "Stock Purchase Plan for Employees" to certain employees of company. **Price**—At average of high and low quotations on day preceding offering \$40 per share. **Proceeds**—For general corporate purposes. Statement effective May 22. ★

Sun Oil Co., Philadelphia, Pa.

May 3 filed 11,000 "memberships in the 1951 plan," effective July 1, 1951, to be offered to employees upon their becoming eligible for membership; a maximum of 111,000 shares of common stock (no par) which it is anticipated may be purchased by the trustees of the plan during the period July 1, 1951, to June 30, 1952; and 193,262 shares of common stock which "it is anticipated may be offered for possible public sale by certain selling stockholders during the same period," at market about \$73 per share. **Underwriter**—None. Statement effective May 21. ★

Sutherland Paper Co. (6/18)

May 29 filed 34,399 shares of cumulative convertible preferred stock (par \$100) to be offered to common stockholders of record on or about June 18, 1951, on the basis of one share of preferred for each 25 shares of common stock (par \$5) which will be outstanding following proposed 2-for-1 stock split-up. **Price**—To be supplied by amendment. **Underwriters**—Lehman Brothers, New York, and Harris, Hall & Co. (Inc.), Chicago, Ill. **Proceeds**—From sale of stock, together with funds to be received from private placement of a long-term note issued currently being negotiated through Lehman Brothers, will be used to retire outstanding 4½% cumulative convertible preferred stock and for working capital.

Teletypewriter Corp., New York (6/5)

May 28 (letter of notification) 49,000 shares of common stock (par \$1) of which 20,000 shares are being offered by selling stockholders. **Price**—\$5 per share. **Underwriter**—L. H. Rothschild & Co., New York, and Coffin, Betz & Co., Philadelphia, Pa. **Proceeds**—To purchase equipment and for general corporate purposes.

Texas Electric Service Co. (6/18)

May 17 filed \$11,500,000 of first mortgage bonds due June 1, 1981. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Carl M. Loeb, Rhoades & Co.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Salomon Bros. & Hutzler; The First Boston Corp.; Kuhn, Loeb & Co., Lehman Brothers and Blyth & Co., Inc. (jointly); Harriman Ripley & Co., Inc., and Stone & Webster Securities Corp. (jointly); Hempill Noyes, Graham, Parsons & Co. and Drexel & Co. (jointly). **Proceeds**—For new construction. **Bids**—Expected to be received up to 11:30 a.m. on June 18. ★

Texas Southeastern Gas Co., Bellville, Tex.

May 16 (letter of notification) 19,434 shares of common stock to be offered to common stockholders through transferable warrants. **Price**—At par (\$5 per share). **Underwriter**—None. **Proceeds**—For working capital.

Thorkon Co., Atlanta, Ga.

May 21 (letter of notification) 15,000 shares of 5% cumulative preferred stock (par \$10) and 30,000 shares of common stock (par 25 cents) to be offered in units of one share of preferred and two shares of common stock. **Price**—\$12 per unit. **Underwriter**—F. E. McMichael & Co., Hartford City, Ind. **Proceeds**—For working capital.

Tracerlab, Inc., Covington, Ky. (6/5)

May 10 filed 175,000 shares of common stock (par \$1). **Price**—To be supplied by amendment. **Underwriter**—Lee Higgins Corp., Boston, Mass. **Proceeds**—To retire outstanding bank loans incurred in connection with acquisition of a controlling interest in Kelley-Koett Manufacturing Co., manufacturers and distributors of X-ray apparatus and equipment; and for working capital. ★

Trans Caribbean Air Cargo Lines, Inc.

May 8 (letter of notification) 20,000 shares of capital stock (par 10 cents). **Price**—At market, approximately \$2.37½ per share. **Underwriter**—Gearhart, Kinnard & Otis, Inc., New York. **Proceeds**—O. Roy Chalk, President, the selling stockholder.

United Gas Corp. (6/29)

• United Gas Corp.

May 25 filed \$50,000,000 of first mortgage and collateral trust bonds due 1971. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; Equitable Securities Corp.; Harriman Ripley & Co., Inc., and Goldman, Sachs & Co. (jointly); The First Boston Corp. **Proceeds**—To purchase securities of United Gas Pipe Line Co., its subsidiary, which, in turn, will use the funds to pay \$7,000,000 of 3% promissory notes owned by United Gas Corp., and the remainder for its construction program.

United States Steel Corp., Hoboken, N. J.

May 21 filed 1,300,000 shares of common stock (no par) "to be offered from time to time to certain key employees" under an incentive plan. **Proceeds**—For general corporate purposes.

• United Stores Corp. (6/13)

May 25 filed 103,170 shares of \$4.20 non-cumulative second preferred stock (par \$5) to be offered for subscription by present holders of second preferred stock on basis of one share for each 10 shares held. **Price**—To be supplied by amendment. **Underwriters**—Union Securities Corp. and D. H. Ellis & Co., both of New York. **Proceeds**—To advance \$495,000 to Cassels United Stores, Inc., a wholly-owned subsidiary, to be used to discharge a bank loan in that amount, and the remainder will be used for general corporate purposes. **Offering**—Expected to be mailed on June 13.

Utica Cutlery Co.

May 4 (letter of notification) 1,000 shares of capital stock being offered to stockholders of record May 1, 1951, on a 1-for-4 basis; rights to expire June 5. **Price**—At par (\$100 per share). **Underwriter**—None. **Proceeds**—To expand plant facilities and for working capital. **Office**—820 Noyes St., Utica, N. Y.

Van Lake Uranium Mining Co., Van Dyke, Mich.

May 15 (letter of notification) 100,000 shares of common stock. **Price**—At par (\$1 per share). **Underwriter**—Titus Miller & Co., Detroit, Mich. **Proceeds**—For exploration and drilling of mining claims. **Office**—23660 Van Dyke Ave., Van Dyke, Mich.

Victoreen Instrument Co., Cleveland, O. (6/12)

May 22 filed 374,000 shares of common stock (par \$1),

of which 221,000 are to be issued by the company and 153,000 for account of John A. Victoreen, Chairman of the Board. **Price**—To be supplied by amendment. **Underwriters**—Barrett Herrick & Co., Inc., New York, and A. H. Vogel & Co., Detroit, Mich. **Proceeds**—For new equipment and working capital.

Virginia Electric & Power Co.

May 2 filed 449,674 shares of common stock (par \$10) being offered to common stockholders of record May 25 on basis of one share for each ten shares held; rights to expire on June 11. **Price**—\$19 per share. **Underwriter**—Stone & Webster Securities Corp., New York. **Proceeds**—For new construction. ★

• Weisfield's, Inc., Seattle, Wash.

May 21 (letter of notification) 5,244 shares of capital stock. **Price**—\$53 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—Ranke Bldg., 1511 Fifth Avenue, Seattle 1, Wash.

Western Gold Mines, Inc., Carson City, Nev.

May 8 (letter of notification) 30,000 shares of capital stock (par 10 cents). **Price**—At the "market" but not exceeding \$3.50 per share. **Underwriter**—J. Arthur Warner & Co., Inc., New York, N. Y. **Proceeds**—For exploration and development of Utah properties.

Wilton Woolen Co., Wilton, Me. (6/4-9)

May 14 filed 195,800 shares of common stock (par \$1). **Price**—\$6 per share. **Underwriter**—A. C. Allyn & Co., Inc., Chicago, Ill., and George A. McDowell & Co., Detroit, Mich. **Proceeds**—To 11 selling stockholders. ★

Yale & Towne Mfg. Co., New York (6/5)

May 16 filed 102,197 shares of capital stock (par \$25) to be offered to stockholders at rate of one share for each five shares held on or about June 5; with rights expected to expire June 20. **Price**—To be supplied by amendment. **Underwriter**—Morgan Stanley & Co., New York. **Proceeds**—To repay bank loans and for new equipment.

Prospective Offerings

• ACF-Brill Motors Co.

May 18 it was reported Avco Manufacturing Corp. is negotiating for the sale of its common stock interest (48.6%) in ACF-Brill to a group headed by Allen & Co., New York.

Alabama Power Co. (9/11)

Feb. 6, it was stated that company contemplates issuance and sale of \$10,000,000 first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Blyth & Co., Inc.; Harriman Ripley & Co., Inc.; Shields & Co. and Salomon Bros. & Hutzler (jointly); Drexel & Co.; Union Securities Corp. and Equitable Securities Corp. (jointly); Kidder, Peabody & Co.; The First Boston Corp.; Lehman Brothers. **Proceeds**—For expansion program. **Bids**—Tentatively expected to be opened on Sept. 11. **Registration**—About Aug. 10.

Alaska Telephone Co.

April 25 it was announced company may soon file a letter of notification with the SEC covering \$300,000 of 6% convertible bonds. **Price**—At par (in units of \$100 each). **Underwriter**—Tellier & Co., New York. **Proceeds**—For new equipment and for expansion.

• American Airlines, Inc.

May 21 it was reported that Avco Manufacturing Corp. may dispose of its 257,600 shares of common stock of

American Airlines, Inc., which represents about 4% of the total outstanding. Probable underwriters—Lehman Brothers and Emanuel Deetjen & Co., New York.

Bell Aircraft Corp.

May 28 stockholders approved a proposal to borrow \$2,500,000 on bonds to mature serially. The proceeds will be used to finance construction of a \$3,000,000 helicopter plant near Fort Worth, Texas. ★

Buffalo Electro-Chemical Co., Inc. (6/6)

Bids will be received at the office of Alien Property, 120 Broadway, New York 5, N. Y., at 1:30 p.m. (EDT) on June 6 for the purchase of 5,058 shares of common stock (no par value), being 45.98% of the outstanding stock. The sale does not represent new financing. A group represented by Charles A. Buerk (President of the company), Schoellkopf, Hutton & Pomeroy, Inc. and Lehman Brothers and including many of the stockholders and employees of the company, has formerly agreed to submit a bid for the stock in an amount aggregating \$3,034,800. Accordingly the auction will be opened by the announcement of said bid. Probable bidders: Allen & Co.; Smith, Barney & Co.; Merrill Lynch, Pierce, Fenner & Beane; A. G. Becker & Co. Inc.

Carolina Natural Gas Corp., Charlotte, N. C.

Feb. 20 a fourth amended application was filed with the SEC for authority to build a natural gas pipeline system to serve certain areas in North and South Carolina. Estimated cost of the proposed facilities is \$3,595,295, to be financed by the sale of first mortgage bonds and the issuance of junior securities. Underwriters may include R. S. Dickson & Co., Charlotte, N. C.

Central & South West Corp.

April 10 it was announced company plans to issue and sell approximately 400,000 shares of common stock (par \$5) late in 1951 or early in 1952. **Underwriters**—May be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Smith, Barney & Co. and Harriman Ripley & Co., Inc. (jointly); Lehman Brothers and Lazard Freres & Co. (jointly); Kuhn, Loeb & Co.; Carl M. Loeb, Rhoades & Co.; Ladenburg, Thalmann & Co. and Wertheim & Co. (jointly). **Proceeds**—To be used to assist subsidiaries to finance a part of their construction program. Stockholders voted on May 15 to increase authorized common stock from 8,000,000 to 10,000,000 shares.

Chicago, Milwaukee, St. P. & Pacific RR. (6/4)

Bids will be received by the company at Room 744, Union Station Bldg., Chicago 6, Ill., on or before noon (CDT) on June 4 for the purchase from it of \$5,300,000 equipment trust certificates, series NN, to be dated June 1, 1951 and to mature in 20 semi-annual installments of \$265,000 each. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

• Chicago, St. Paul, Minneapolis & Omaha Ry. (6/12)

Bids will be received at the office of the company, Room 1400, Daily News Bldg., 400 West Madison St., Chicago 6, Ill., up to noon (CDT) on June 12 for the purchase from it of \$1,005,000 equipment trust certificates to be dated July 1, 1951 and to mature in 15 equal annual installments on July 1, 1952 to 1966, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co., Inc. and Equitable Securities Corp. (jointly); Salomon Bros. & Hutzler.

Columbus & Southern Ohio Electric Co.

May 16 J. B. Poston, President, announced that company plans an early offering of \$10,000,000 first mortgage bonds. **Underwriters**—Last issue of bonds were placed privately on July 1, 1948 through Dillon, Read & Co. Inc., New York. If competitive, probable bidders may include Halsey, Stuart & Co. **Proceeds**—For expansion program.

Commonwealth Edison Co.

May 22 Charles Y. Freeman, Chairman, announced that the company's scheduled construction program for the 1951-54 period calls for the expenditure of about \$450,000,000, of which it is estimated that \$200,000,000 will be provided out of cash resources at the end of 1950. This means that additional capital of about \$250,000,000 will be required through 1954. Neither the timing nor the nature of this new financing have yet been determined. Probable bidders for bonds or debentures: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Morgan Stanley & Co.

Consolidated Edison Co. of New York, Inc.

March 23 company applied to New York P. S. Commission for authority to issue and sell \$25,000,000 of first and refunding mortgage bonds, series H, due May 1, 1981 (in addition to \$40,000,000 series G bonds filed with the SEC on March 30). **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly). **Proceeds**—To redeem a like amount of Westchester Lighting Co. 3 1/2% general mortgage bonds due 1967. **Offering**—Postponed.

Denver & Rio Grande Western RR.

April 12, Wilson McCarthy, President, stated that due to prevailing market conditions, the company has postponed to an undetermined date the taking of bids for the purchase of \$40,000,000 first mortgage bonds to be dated May 1, 1951, and to mature on May 1, 1981. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co. and Bear, Stearns & Co. (jointly). **Proceeds**—Together with treasury funds, to redeem on June 1, 1951, \$35,062,200 outstanding first mortgage 3%-4% bonds, series A, and \$8,666,900 of Denver & Salt Lake income mortgage 3%-4% bonds, both due Jan. 1, 1993.

Detroit Edison Co.

March 19 it was announced company plans to sell approximately \$35,000,000 of first mortgage bonds early this Fall. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Coffin & Burr, Inc., and Spencer Trask & Co. (jointly); Morgan Stanley & Co.; The First Boston Corp.; Dillon, Read & Co. Inc. **Proceeds**—For construction program.

Dow Chemical Co.

April 5, Leland I. Doan, President, stated that the company plans to spend \$65,000,000 on plant expansion in the current fiscal year ending May 31, 1951, and expects to spend somewhat more in the following fiscal year. He added, however, that no decision has been reached on any possible financing in this connection. Traditional underwriter: Smith, Barney & Co., New York.

• Fort Worth & Denver City Ry.

May 17 stockholders approved a program providing for simplification of that company's corporate structure and for the refunding of the indebtedness of the company and its subsidiaries. This program calls for a new issue of \$20,000,000 first mortgage bonds due 1981 of Fort Worth & Denver City Ry. and the transfer to the latter of stock and other obligations of seven Texas companies. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Salomon Bros. & Hutzler; The First Boston Corp.

Georgia Natural Gas Co., Albany, Ga.

May 24 the FPC dismissed the application of company to construct a 335-mile pipeline system in Georgia and Florida, estimated to cost \$5,100,000. ★

Glass Fibres, Inc.

April 16 it was reported that company may do some common stock financing later this year. Traditional underwriter—McCormick & Co., Chicago, Ill.

• General Foods Corp.

May 24, it was reported that the company is considering a plan to issue and sell approximately \$30,000,000 of debentures. Traditional underwriters: Goldman, Sachs & Co. and Lehman Brothers, New York.

Glenmore Distilleries Co. (6/19)

April 23 it was announced company expects shortly to file a registration statement covering 30,000 shares of \$100 par preferred stock (with warrants attached), and to withdraw statement covering 159,142 shares of class B common stock (par \$1). **Underwriter**—Glore, Forgan & Co., New York. **Proceeds**—For working capital and general corporate purposes.

• Glidden Co., Cleveland, O.

May 28 it was announced that company plans to issue an amount not exceeding \$10,000,000 of unsecured notes, the proceeds to be added to working capital. Previous debt financing was done privately.

Green Mountain Power Corp., Montpelier, Vt.

May 4 SEC announced approval of a plan for reorganization, which, among other things, provides for sale of 104,094 shares of new common stock (par \$10) through underwriters, subject to the right of present preferred stockholders to subscribe for the new shares. **Proceeds** will be used to repay bank loans and for new construction.

Hussmann Refrigerator Co.

May 28, it was announced stockholders will vote June 18 on approving issuance and sale of 23,000 shares of 4% preferred stock, series B (par \$100), to Penn Mutual Life Insurance Co. The proceeds would be used to redeem 16,000 outstanding shares of series A preferred stock (held by the same insurance company) and the remaining \$700,000 added to working capital.

Idaho Power Co.

May 14, it was announced company is presently considering the issuance of approximately \$15,000,000 of additional first mortgage bonds in July. This is in addition to registration of 35,000 shares of 4% preferred stock (par \$100). Bonds will probably be placed privately. If competitive, probable bidders may include Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Lazard Freres and The First Boston Corp. (jointly); Equitable Securities Corp.; Kidder, Peabody & Co.; Salomon Bros. & Hutzler and Union Securities Corp. (jointly). **Proceeds** will be used for additions and improvements to the company's properties. ★

Iowa Public Service Co.

May 22 it was announced company plans to issue and sell \$5,000,000 of first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Otis & Co.; Kidder, Peabody & Co.; Glore, Forgan & Co., A. G. Becker & Co. Inc. and Wm. Blair & Co. (jointly); Harriman Ripley & Co., Inc.; Equitable Securities Corp.; Salomon Bros. & Hutzler. **Proceeds**—To finance its 1951 construction program. **Bids**—Expected in July. ★

I-T-E Circuit Breaker Co.

May 28 it was announced stockholders have approved proposals to increase the authorized indebtedness of the company to \$3,500,000 from \$1,500,000, and the authorized but unissued preferred stock from 15,000 shares to 30,000 shares, par \$100. ★

Kansas Gas & Electric Co.

May 24 Murray F. Gill, Chairman of the board, announced that the company's present construction program calls for expenditures of more than \$8,000,000 in 1951. To finance part of the expansion program, company may sell \$5,000,000 of first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane

Continued on

Continued from page 41

and Kidder, Peabody & Co. (jointly). There is a possibility that company may also decide to refund its outstanding \$16,000,000 first mortgage 3½% bonds due 1970 (held by a group of insurance companies) and \$5,000,000 first mortgage 3½% bonds due 1978. ★

• McKesson & Robbins, Inc.

May 24 it was announced stockholders will vote Oct. 23 on a proposal to increase authorized common stock by 500,000 shares to 2,500,000 shares in order to provide for a probable offering of additional stock to common stockholders. Probable underwriter: Goldman, Sachs & Co., New York. Proceeds will be added to working capital.

Minnesota Power & Light Co.

May 27 it was announced registration is expected on June 7 of \$10,000,000 new first mortgage bonds. Underwriters—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Shields & Co. and Equitable Securities Corp. (jointly); The First Boston Corp. and Glore, Forgan & Co. (jointly); Otis & Co.; White, Weld & Co.; Lehman Brothers and Drexel & Co. (jointly); Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Kidder, Peabody & Co.; Coffin & Burr, Inc. **Proceeds**—For expansion program. ★

Mississippi Power Co. (7/17)

Feb. 6, it was reported that this company contemplates the issuance and sale of \$4,000,000 of preferred stock (par \$100). **Underwriters**—To be determined by competitive bidding. Probable bidders: W. C. Langley & Co., Glore, Forgan & Co. and Sterne, Agee & Leach (jointly); Blyth & Co., Inc.; The First Boston Corp.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Lehman Brothers; Union Securities Corp. and Equitable Securities Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—For construction program. **Bids**—Tentatively expected to be received on July 17. **Registration**—Scheduled for June 15.

Montana-Dakota Utilities Co.

May 24 the FPC authorized company to acquire natural gas facilities of three companies operating in Montana and Wyoming, to construct interconnections between the properties to be acquired, and to build additional compressor facilities. The estimated total cost of the facilities to be acquired is \$4,770,389 as of Sept. 30, 1950, plus or minus book adjustments, and the facilities to be built are estimated to cost \$708,774. To finance the transactions, the company plans to issue and sell \$2,000,000 of preferred stock and \$3,000,000 of first mortgage bonds. **Underwriters**—(1) for preferred stock: probably Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane. (2) For bonds: To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Salomon Bros. & Hutzler and Dick & Merle-Smith (jointly). ★

National Utilities Co. of Michigan

March 6 company sought FPC authority to construct about 76.7 miles of pipeline, at an estimated cost of \$1,500,000, to be financed by issuance and sale of first mortgage bonds.

New Jersey Power & Light Co.

Feb. 19 it was reported that company tentatively plans to issue and sell \$2,500,000 of preferred stock to public and \$1,500,000 of common stock to General Public Utilities Corp., parent. **Underwriters**—For preferred to be determined by competitive bidding. Probable bidders: Drexel & Co., Kuhn, Loeb & Co., and Lehman Brothers (jointly); W. C. Langley & Co.; Smith, Barney & Co. and Union Securities Corp. (jointly); Kidder, Peabody & Co. and White, Weld & Co. (jointly); Salomon Bros. & Hutzler. **Proceeds**—For 1951 construction program. Expected late Summer and early Fall.

New York State Electric & Gas Corp.

May 4, Joseph M. Bell, Jr., President, announced that the company's \$66,500,000 construction program for the three years through 1953 involves new financing of \$41,500,000 in addition to the \$10,500,000 provided thus far this year through the sale of 2.80% first mortgage bonds, in accordance with contracts entered last August. Traditional underwriter: The First Boston Corp., New York.

Ohio Power Co.

May 15 it was stated that this company, a subsidiary of American Gas & Electric Co., will need \$36,000,000, perhaps more, which it expects to raise some months hence through the sale of new securities. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp.; Glore, Forgan & Co.; White, Weld & Co. and Union Securities Corp. (jointly). **Proceeds** will be used for construction program.

• Oklahoma Gas & Electric Co.

May 21 it was stated company plans to issue and sell \$10,000,000 of new first mortgage bonds next year and later offer to common stockholders additional common stock on a 1-for-20 basis. **Underwriters**—For bonds to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Blyth & Co., Inc. (jointly); The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Harriman Ripley & Co., Inc. and Union Securities Corp. (jointly); Equitable Securities Corp. **Proceeds**—To finance construction program.

Panhandle Eastern Pipe Line Co.

May 17 it was stated company has applied to the Missouri P. S. Commission for authority to issue and sell to the public \$20,000,000 of sinking fund debentures due 1971, and to issue 60,000 additional shares of common stock to key employees under a stock option plan. **Underwriters**—For debentures, to be determined by competitive bidding. Probable bids may include Kidder,

ITEMS REVISED EACH WEEK

The data in this compilation is brought up-to-date each week in accordance with later information made available by the SEC or other reliable sources. Where changes have been made during the past week, this is indicated by the symbol (★) appearing at the end of the respective listings. As heretofore, the symbol (●) preceding the name of the prospective borrower indicates that it is an entirely new listing.

Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane and Halsey, Stuart & Co. Inc. (jointly). **Proceeds—For construction program.**

Pennsylvania-Reading Seashore Lines (6/6)

Bids will be received by the company at Reading Terminal, Philadelphia, Pa., on or before noon (EDT) on June 6 for the purchase from it of \$4,000,000 first mortgage bonds, series A, to be dated July 2, 1951 and to mature July 1, 1976. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kuhn, Loeb & Co.; Drexel & Co. **Proceeds**—To retire \$1,926,000 of 4% bonds due July 1, 1951 and \$2,200,000 of 5% bonds due May 1, 1954.

• Pennsylvania Water & Power Co.

May 28 John A. Walls, President, announced stockholders will vote July 25 on approving changes in the company's charter provisions which would permit the issuance of the remaining 78,507 preferred shares as cumulative series preferred stock with a par value of \$100. These shares are now without par value. Company now has a \$25,000,000 expansion program, the financing of which will be accomplished through a later sale of securities to the public. The present outstanding 21,493 shares of \$5 cumulative preferred stock were subscribed for by common stockholders in 1933.

Pfizer (Chas.) & Co., Inc.

May 18 it was announced company plans issuance and sale to common stockholders of 444,015 additional shares of new common stock (par \$1) on a 1-for-10 basis, following proposed 3-for-1 split-up of presently outstanding 1,480,050 shares of common stock (par \$1) which will be voted upon on June 21. It is also proposed to sell to the public an issue of 150,000 shares of cumulative convertible second preferred stock. **Underwriters**—F. Eberstadt & Co. Inc. **Proceeds**—To reimburse the company for plant expansion programs already approved and under way for further expansion and for working capital.

Potomac Electric Power Co.

May 10 it was announced company has arranged to borrow up to \$10,000,000 from 17 banks and expects to fund these loans through sale of permanent securities this fall or early in 1952. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers, Stone & Webster Securities Corp. and Union Securities Corp. (jointly); First Boston Corp.; Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane, White, Weld & Co. and Salomon Bros. & Hutzler (jointly); Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly); Dillon, Read & Co. Inc.; Harriman Ripley & Co., Inc.

• Reading Tube Corp.

May 28, it was announced stockholders will vote June 5 on approving the issuance of not more than \$1,850,256 of 20-year 6% sinking fund debentures. These, together with class B stock, would be offered in exchange for outstanding class A cumulative and participating stock on the basis of \$700 of debentures and 25 shares of class B stock for each 100 shares of class A stock.

Rochester Gas & Electric Corp.

May 16 it was announced that stockholders will vote June 6 on increasing authorized common stock from 1,250,000 to 1,750,000 shares. It is planned to offer later this year about 150,000 shares for subscription by common stockholders on a 1-for-7 basis and 50,000 shares to employees under a payroll reduction plan. **Underwriter**—The First Boston Corp. **Proceeds**—For expansion program.

• Rochester Gas & Electric Co.

May 16 it was announced stockholders will vote June 6 on increasing secured indebtedness from \$10,900,000 to \$16,400,000. It is planned to issue and sell \$5,500,000 first mortgage bonds to institutional investors. Proceeds will be used for new construction.

South Georgia Natural Gas Co., Atlanta, Ga.

May 24 the FPC dismissed the application of company to construct 527 miles of natural gas pipe line to supply markets in Georgia and Florida, the estimated cost of which was between \$10,500,000 and \$12,080,000. ★

South Jersey Gas Co.

April 24 Earl Smith, President, announced company plans a bond issue of more than \$8,000,000 by fall of this year. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Blyth & Co., Inc. **Proceeds**—To refund the presently outstanding \$4,000,000 of 4½% first mortgage bonds and repay outstanding short-term bank notes which are due before the end of the year.

Southern California Gas Co.

April 4, the company indicated that it would soon be in the market with \$18,000,000 of senior securities. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; White, Weld & Co.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and Harris, Hall & Co. (Inc.) (jointly). **Offering**—Expected in the Fall. ★

• Southern Union Gas Co.

May 23 C. H. Zachry, President, announced that company plans the issuance of \$5,000,000 new first mortgage bonds within the next 60 to 90 days. **Traditional Underwriter**—Blair, Rollins & Co., Inc. **Proceeds**—For new construction.

• Speer Carbon Co.

May 18 it was reported that company plans to raise about \$10,000,000 through the issuance and sale to private institutions of an issue of bonds and a public offering of additional common stock. **Underwriter**—Lee Higgins & Corp., New York.

Texas Gas Transmission Corp.

May 28 company outlined before the FPC plans for a 601-mile pipe line project to cost approximately \$45,300,000. The program would increase the company's daily delivery capacity by 240,000,000 cubic feet to over 900,000,000 cubic feet a day. Tentative plans include the sale of around \$30,000,000 of bonds (which may be placed privately with insurance firms) and about \$10,000,000 of preferred stock (depending upon market conditions). The balance of the funds needed will be obtained from treasury cash or temporary bank loans. Traditional underwriter: Dillon, Read & Co. Inc., New York. ★

• Texas & Pacific Ry. (6/14)

Bids will be received on June 14 for the purchase from the company of \$5,500,000 equipment trust certificates, series K, to be dated July 1, 1951. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harris, Hall & Co. (Inc.).

Texas Power & Light Co.

May 21 it was stated company may offer either \$7,000,000 or \$14,000,000 of first mortgage bonds late in 1951 or early 1952. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co. and Smith, Barney & Co. (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Carl M. Loeb, Rhoades & Co. and E. H. Rollins & Sons (jointly); Union Securities Corp.; Drexel & Co. and Hemphill, Noyes, Graham, Parsons & Co. (jointly); White, Weld & Co.; Equitable Securities Corp.; Harriman Ripley & Co., Inc.; Lehman Brothers; Salomon Bros. & Hutzler. **Proceeds**—To be used to finance construction costs. ★

Textron, Incorporated

May 10, it was announced stockholders on June 8 will vote on authorizing the creation of a new issue of 250,000 shares of 4% preferred stock (par \$100). On May 23, they will vote on increasing authorized common stock from 2,000,000 to 3,000,000 shares. Traditional underwriter: Blair, Rollins & Co. Inc., New York. **Proceeds** are to be used for expansion program.

• United Utilities, Inc.

May 22 it was reported company expects soon to file a registration statement covering 200,000 additional shares of common stock to be offered first to common stockholders on a 1-for-3 basis. **Underwriter**—Kidder, Peabody & Co., Inc., New York.

Utah Power & Light Co.

March 8 it was announced company during 1951 proposes to issue and sell 200,000 shares of common stock and estimated \$10,000,000 of first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders (1) For bonds: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers, and Bear, Stearns & Co. (jointly); White, Weld & Co.; Salomon Bros. & Hutzler; First Boston Corp., and Blyth & Co., Inc. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); and (2) for stock: Blyth & Co., Inc.; W. C. Langley & Co., and Glore, Forgan & Co. (jointly); Union Securities Corp., and Smith, Barney & Co. (jointly); Lehman Bros. & Bear, Stearns & Co. (jointly); Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly). However, common stock offering may be made directly by company, without underwriting. **Offering**—Expected this fall. **Proceeds**—To repay bank loans and to provide additional construction funds. May 18 company sought SEC approval to borrow from banks not in excess of \$12,000,000. ★

Valley Gas Pipe Line Co., Inc., Houston, Tex.

May 9 FPC dismissed application of company proposing the construction of a \$144,500,000 pipeline project to carry natural gas from Texas and Louisiana to markets in Indiana, Ohio and Michigan. The company had planned to build 1,500 miles of line.

Victor Chemical Works

March 30 it was announced company plans to issue and sell 100,000 shares of new convertible second preferred stock (par \$50). **Underwriter**—F. Eberstadt & Co., Inc., New York. **Proceeds**—Together with funds from private sale of \$4,000,000 of 20-year sinking fund notes, to be used toward expansion program. Stockholders to vote on proposal on June 8. ★

Virginia Electric & Power Co.

May 1 the company announced that it is contemplated that there will be additional financing to an amount approximating \$20,000,000, after sale of the additional common stock registered with SEC (see above), incident to the 1951 construction program, and that further financing will be required in 1952. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Stone & Webster Securities Corp.; Union Securities Corp.; White, Weld & Co. Co.

Washington Gas Light Co.

March 8 it was announced that company may issue approximately \$9,000,000 of bonds or obtain bank loans (or some combination thereof) during 1951 and apply the proceeds toward its construction program. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Smith, Barney & Co. and White, Weld & Co. (jointly); W. C. Langley & Co. and The First Boston Corp. (jointly); Equitable Securities Corp.; Alex, Brown & Sons (jointly).

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Our Reporter's Report

are required of them. Accordingly there is no check except by the banks, themselves, as lenders.

But the slowing down in new emissions, through quasi-voluntary control of credits in such directions, has been reflected in a firming up of the market with the result that the consequences of the long let-down in prices have been softened at least to that extent.

Negotiated Deals Lead

Negotiated deals are all the vogue at the moment, much to the satisfaction of the underwriter who claims he can do a much better job for the client this way than through the medium of competitive bidding.

Forthcoming offerings are not large as such things go, but they are sufficient to keep a number of houses busy for a spell. Two are in the nature of standby operations, with shares involved being offered first to present stockholders.

Carrier Corp. is slated to offer 216,575 shares of additional common next week on a one-for-three basis, with underwriters standing by to take any unsubscribed portion.

Public Service Co. of Colorado likewise is offering 274,027 shares of common, including 249,116 shares first to holders on a one-for-ten basis.

Kansas Power & Light

Meanwhile Kansas Power & Light Co. is slated to offer about June 12, an additional block of 256,842 shares of new common stock, \$8.75 par value.

This stock, however, which is being handled on a negotiated basis, will not be offered first to present shareholders. It will be offered publicly with the proceeds to be used for payment of bank loans and to finance construction.

Meanwhile Rheem Manufacturing Co. has registered to sell 190,000 shares of 4.5% cumulative preferred stock of which 70,000

REDEMPTION NOTICE**TWENTIETH CENTURY-FOX FILM CORPORATION****NOTICE OF REDEMPTION OF \$1.50 PREFERRED STOCK**

NOTICE IS HEREBY GIVEN that Twentieth Century-Fox Film Corporation has called for redemption on July 13, 1951, all of its outstanding Preferred Stock, at the redemption price of \$35.0583 per share (i. e. \$35 and the dividends which will accrue from June 29, 1951 to the date of redemption, \$0.0583).

Holders of Preferred Stock are requested to surrender all certificates to Bankers Trust Company, Agent, Corporate Trust Department, 16 Wall Street, New York 15, New York, on July 13, 1951. Upon surrender on or after said date the holder will receive payment in cash of the redemption price. No transfers of these certificates on the transfer books of the Corporation can be made after July 12, 1951.

On or before the close of business on July 6, 1951, but not thereafter, the shares of Preferred Stock are convertible into fully paid and non-assessable shares of Common Stock of the Corporation, at the option of the holders, on the basis of 1 1/4 shares of such Common Stock for each 1 share of Preferred Stock surrendered for conversion. Fractional shares of Common Stock are not issuable in satisfaction of the conversion privilege, but in lieu of fractional shares non-dividend and non-voting scrip certificates will be issued by the Corporation. If a shareholder decides to convert his shares of Preferred Stock to Common Stock, the Preferred Stock certificates to be converted must be received by Bankers Trust Company, Corporate Trust Department, 16 Wall Street, New York 15, New York, with a letter requesting such conversion before the close of business on July 6, 1951.

After July 13, 1951, all dividends on the Preferred Stock will cease to accrue and all rights with respect to those shares will cease, except only the right of the holders to receive the redemption price without interest.

Letters of Transmittal and instructions on the conversion privilege have been mailed to all registered Preferred holders and are available at the office of the Bankers Trust Company.

By Order of the Board of Directors,
TWENTIETH CENTURY-FOX FILM CORPORATION.
By: DONALD A. HENDERSON, Secretary.

May 24, 1951.

IMPORTANT

Careful consideration should be given to the market value of the Common Stock of the Corporation into which shares of Preferred Stock may be converted. Holders may wish to consult with their bank, broker or other financial advisor concerning this matter.

TWENTIETH CENTURY-FOX FILM CORPORATION**NOTICE OF REDEMPTION OF \$4.50 PRIOR PREFERRED STOCK**

NOTICE IS HEREBY GIVEN that Twentieth Century-Fox Film Corporation has called for redemption on July 13, 1951, all of its outstanding Prior Preferred Stock, at the redemption price of \$100.35 per share (i. e. \$100 and the dividends which will accrue from June 15, 1951 to the date of redemption, \$0.35).

Holders of Prior Preferred Stock are requested to surrender all certificates to The Chase National Bank of the City of New York, Agent, Corporate Securities Division, 11 Broad Street, New York 15, New York, on July 13, 1951. Upon surrender on or after said date the holder will receive payment in cash of the redemption price. No transfers of these certificates on the transfer books of the Corporation can be made after the close of business on July 12, 1951.

After July 13, 1951, all dividends on the shares called for redemption will cease to accrue and all rights with respect to these shares will cease, except only the right of the holders to receive the redemption price without interest.

Letters of Transmittal have been mailed to all registered Prior Preferred holders and are available at the office of The Chase National Bank of the City of New York.

By Order of the Board of Directors,
TWENTIETH CENTURY-FOX FILM CORPORATION.
By: DONALD A. HENDERSON, Secretary.

May 24, 1951.

DIVIDEND NOTICES**ALLIED CHEMICAL & DYE CORPORATION**

Quarterly dividend No. 121 of Fifty Cents (\$0.50) per share has been declared on the Common Stock of the Company, payable June 20, 1951 to stockholders of record at the close of business June 8, 1951.

W. C. KING, Secretary
May 29, 1951.

AMERICAN LOCOMOTIVE COMPANY

30 Church Street, New York 8, N. Y.

PREFERRED DIVIDEND No. 172**COMMON DIVIDEND No. 105**

Dividends of one dollar seventy five cents (\$1.75) per share on the Preferred Stock and of twenty-five cents (25¢) per share on the Common Stock of this Company have been declared, payable July 1, 1951, to holders of record at the close of business on June 6, 1951. Transfer books will not be closed.

CARL A. SUNDBERG
Secretary
May 24, 1951.

AMERICAN BANK NOTE COMPANY

Preferred Dividend No. 181
Common Dividend No. 171

A quarterly dividend of 75¢ per share (1 1/4%) on the Preferred Stock for the quarter ending June 30, 1951, and a dividend of 25¢ per share on the Common Stock have been declared. Both dividends are payable July 2, 1951, to holders of record June 4, 1951. The stock transfer books will remain open.

W. F. COLCLOUGH, JR.
Secretary
May 23, 1951.

ANACONDA

DIVIDEND NO. 172

May 24, 1951

The Board of Directors of Anaconda Copper Mining Company has today declared a dividend of Seventy-five Cents (\$0.75) per share on its capital stock of the par value of \$50 per share, payable June 28, 1951, to stockholders of record at the close of business May 31, 1951. The dividend will be payable in shares of Florida Power & Light Company Common Stock at the rate of 2.2 shares for each 100 shares of Electric Bond and Share Company Common Stock. No scrip representing fractional shares of Florida Power & Light Common Stock will be issued to stockholders. The Company proposes to arrange for the Company's dividend agent to handle fractional share equivalents for the stockholders.

C. EARLE MORAN
Secretary and Treasurer
25 Broadway, New York 4, N. Y.

ELECTRIC BOND AND SHARE COMPANY

TWO Rector St., NEW YORK 6, N. Y.
Common Stock Dividend

The Board of Directors has declared a dividend, subject to the approval of the Securities and Exchange Commission, on the Common Stock, payable June 30, 1951, to stockholders of record at the close of business May 31, 1951. The dividend will be payable in shares of Florida Power & Light Company Common Stock at the rate of 2.2 shares for each 100 shares of Electric Bond and Share Company Common Stock. No scrip representing fractional shares of Florida Power & Light Common Stock will be issued to stockholders. The Company proposes to arrange for the Company's dividend agent to handle fractional share equivalents for the stockholders.

B. M. BETSCH,
Secretary-Treasurer
May 24, 1951.

DIVIDEND NOTICES**AMERICAN METER COMPANY**

Incorporated

1513 RACE STREET
Phila., Pa., May 24, 1951
A dividend of Fifty Cents (\$0.50) per share has been declared on the Capital Stock of the Company, payable June 15, 1951, to stockholders of record at the close of business May 31, 1951.

W. B. ASHBY, Secretary.

The Colorado Fuel & Iron Corporation**DIVIDEND ON COMMON STOCK**

At a meeting of the Board of Directors of the Colorado Fuel and Iron Corporation, held on May 28, 1951, the regular dividend in the amount of thirty-seven and one-half cents per share was declared on its common stock, payable June 29, 1951 to stockholders of record at the close of business on June 8, 1951.

D. C. McGREW, Secretary

C.I.T. FINANCIAL CORPORATION**Dividend on Common Stock**

A quarterly dividend of \$1.00 per share in cash has been declared on the Common Stock of C. I. T. FINANCIAL CORPORATION, payable July 1, 1951, to stockholders of record at the close of business June 8, 1951. The transfer books will not close. Checks will be mailed.

FRED W. HAUTAU, Treasurer

May 24, 1951.

CALUMET AND HECLA CONSOLIDATED COPPER CO.

The Board of Directors of Calumet and Hecla Consolidated Copper Company has declared a dividend of twenty cents (\$0.20) per share, payable June 20, 1951 to stockholders of record at the close of business June 5, 1951. Checks will be mailed from the Old Colony Trust Company, Boston, Mass.

J. H. ELLIOTT, Secretary

Boston, Mass., May 24, 1951

CSC COMMERCIAL SOLVENTS Corporation**DIVIDEND No. 66**

A dividend of twenty-five cents (25c) per share has today been declared on the outstanding common stock of this Corporation, payable on June 29, 1951, to stockholders of record at the close of business on June 7, 1951.

A. R. BERGEN,
Secretary

May 28, 1951.

DIVIDEND NOTICES**HOMESTAKE MINING COMPANY**

DIVIDEND No. 890

The Board of Directors has declared dividend of \$12.50 per share of Capital Stock, payable June 15, 1951 to stockholders of record June 5, 1951. Checks will be mailed by Irving Trust Company, Dividend Disbursing Agent.

JOHN W. HAMILTON, Secretary.

May 18, 1951

THE SAFETY CAR HEATING AND LIGHTING COMPANY, INC.**DIVIDEND NO. 216**

The Board of Directors has declared a dividend of 25¢ per share on the outstanding Capital Stock of the Company of the par value of \$12.50 per share, payable July 2, 1951, to holders of record at the close of business June 8, 1951.

J. H. MICHAELI,
Treasurer

May 22, 1951

IBM INTERNATIONAL BUSINESS MACHINES CORPORATION

590 Madison Ave., New York 22

The 145th Consecutive Quarterly Dividend

The Board of Directors of this Corporation has this day declared a dividend of \$1.00 per share, payable June 9, 1951, to stockholders of record at the close of business on May 18, 1951. Transfer books will not be closed. Checks prepared on IBM Electric Punched Card Accounting Machines will be mailed.

A. L. WILLIAMS, Vice Pres. & Treasurer
April 24, 1951

IRVING TRUST COMPANY

One Wall Street, New York

May 24, 1951

The Board of Directors has this day declared a quarterly dividend of 20 cents per share on the capital stock of this Company, par \$10., payable July 2, 1951, to stockholders of record at the close of business June 4, 1951.

STEPHEN G. KENT, Secretary

INTERNATIONAL SALT COMPANY**DIVIDEND NO. 148**

A dividend of FIFTY CENTS a share has been declared on the capital stock of this Company, payable July 2, 1951, to stockholders of record at the close of business on June 15, 1951. The stock transfer books of the Company will not be closed.

HERVEY J. OSBORN
Exec. Vice Pres. & Sec'y.

**UNITED FRUIT COMPANY****DIVIDEND NO. 208**

A dividend of seventy-five cents per share on the capital stock of this Company has been declared payable July 13, 1951 to stockholders of record June 7, 1951.

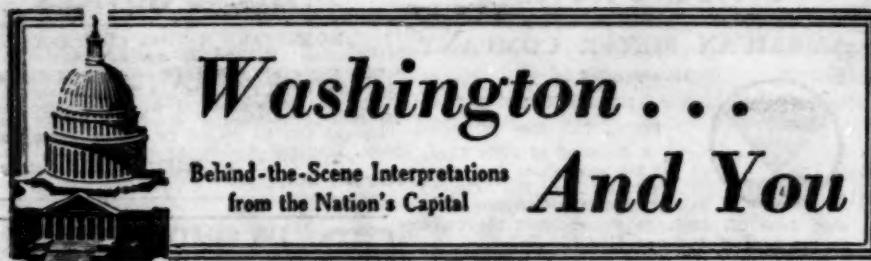
EMERY N. LEONARD
Secretary and Treasurer
Boston, Mass. May 21, 1951

YALE & TOWNE**250th Consecutive Dividend Since 1899**

On May 24, 1951, dividend No. 250 of fifty cents (50¢) per share was declared by the Board of Directors out of past earnings, payable on July 2, 1951, to stockholders of record at the close of business June 5, 1951.

F. DUNNING
Executive Vice-President and Secretary

THE YALE & TOWNE MFG. CO.



Washington... And You

Behind-the-Scene Interpretations
from the Nation's Capital

WASHINGTON—D. C.—In its latest actions before completing the draft of the proposed tax bill, the Democratic majority of the Ways and Means Committee has dispelled the mystery of why that majority seemed to be actually coming out for \$7 billion of a tax increase at the time when the great majority of the Congress was in a mood to stand for not much over \$5 billion.

At first the committee as a whole gave the impression of making a serious endeavor to raise tax revenues by acceptable means. The Administration's more or less phony proposals for cutting depletion allowances and hitting capital gains hard, phony in the sense that they were fairly doomed in advance, gave a serious caste to the committee's earlier deliberations.

Then the left-wingers with whom the committee was packed at the opening of the last two Democratic Congresses, began imperceptibly to treat the tax bill as a political toy. In its final or near-final form, the House committee's bill amounts to about 75% pure political posing and positioning.

In other words, faced with the basic question of how to get real money of the people, the committee, after first discarding the phony, reverted to the same. What has been turned out is a bill which is preponderantly a CIO "soak the rich" and corporations enterprise.

One of the phony aspects as it is seen by observers is the 12½% defense surtax. This was what the committee adopted after becoming frightened of a 3-point increase in personal income surtax rates in all brackets.

Rep. Robert W. Kean (R., N.J.) of the committee, had a check made by the staff of how this thing would work in respect to the income of a single individual in various brackets. According to Mr. Kean the single individual with \$2,000 of taxable income would have his "spendable" or "take home" income reduced 2% by the 12½% defense surtax.

For the individual of \$5,000 of income, the reduction would be 2.9%; for the individual with \$10,000 of taxable income, the tax would swipe an additional 4%. These brackets include all of the cream of the time-and-one-half and double-time boys.

However, the net "take home" pay of the fellow with \$100,000 before Federal taxes would be cut by 24.2%. If Mr. Kean is correct or if these computations collected for him are correct, it is reasonable to have the gravest doubts as to the publicly announced estimate that this tax would raise as much as \$2,085 million.

As a matter of fact, just between us girls, this estimate of \$2,085 millions as the yield was NOT made by the staff of the Joint Committee on Internal Revenue, whose statistical honesty has never been questioned seriously in the memory of most newsmen.

In any case, it is reasonable to assume that the 12½% defense surtax does not conform with the supposed Administration objective of using the tax as an anti-inflation device because it wouldn't tax where the spending money is accruing—in the lower brackets.

With respect to the corporation income tax schedule, the committee has actually proposed to

get virtually all of the additional revenue by the most drastic boost in the incidence of taxation on corporation "normal" income. The "normal" income would be hit in two ways.

First, the "normal" rate would be boosted from 47 to 52%, or by 5 points. Second, the excess profits tax rate would be made applicable above 75% of the base or so-called "normal" income, versus 85%, the present law's base.

Thus, corporations would be hit hard twice. First off, they would pay 52% versus 47% under present law of regular corporation income taxation on three-fourths of their legally-titled "normal" income. Second, upon 25% of their "normal" or pre-Korean volume of income, they would pay at excess profits tax rates, said latter rates remaining applicable upon legally defined excess profits income.

This amounts to taking it out of the hides of corporations. Together with the 12½% defense surtax gadget, this is strictly out of the CIO book.

Leftish as is a bloc of the Democratic majority on the Ways and Means committee, however, it is not an altogether factually accurate explanation of the background to say that the Democratic majority of the committee simply went CIO in the tax bill.

The fundamental core of the CIO program is "don't tax us laboring guys, but tax the filthy rich." This assumes placidly that there are enough unliquidated rich left to pay the tax bill, an assumption which, at least privately, few members of the committee personally make.

What happened is that the majority of the committee, confronted with the stark reality that raising an additional even \$7 billion, much less the \$10 billion of new taxes the Administration asked, meant a combination of personal income and/or excise profits taxes that would hurt the voting nerve.

So when the committee got up to this particular trough, it just wouldn't drink. This committee action thus confirms the general impression that the majority of Congress is afraid to go at best more than half way down the road the Administration asks, and even if it went this half way, it would do it with great political trepidation.

So the actual situation is that today there is, for practical purposes, no tax bill pending at all. The committee tried to write a tax bill, failed, and instead just laid a brick, albeit a mighty hot one. Hence the question raised by the action of the Ways and Means Committee is the one which basically has been pending since February, of when, where, and in what manner a tax bill will be written.

One possibility was suggested in this space recently, that the House in one way or another, obviously unsympathetic to the kind of a "bill" the committee has written, might take matters into its own hands. The House might attempt to write some general tax bill instructions in the form of a recomittal motion, or it might recommit the bill in such a way as to give the Democratic majority clear word that it wanted no more of such nonsense. Or the Rules Committee might laugh the

BUSINESS BUZZ



"You're fresh! Why should I tell you, a total stranger, that my phone number is Meatball 7-8600?"

bill back to committee for rewriting.

This prospect, however, appears to be fading a little in the agonized weariness of the membership in the arrogance with which nonsense is being seriously peddled by the Administration. When the Administration can purport to "roll back" meat prices one day and the next bust the stretched wage "ceiling" by 6 cents for the meat cutters without the public rising in a howl of utter derision, there is increasingly a feeling of "what's the use."

It may be that the House will narrowly pass the buck to the Senate, so that the tax bill in fact will have to be written in the Senate under the able leadership of Senator Walter F. George (D., Ga.) and his capable members of the Finance Committee.

If the House, to quit itself of this awful chore, does pass the buck to Mr. George, the latter's task of writing a sensible bill will be complicated greatly by the fact that the House has made a record for what is substantially a CIO program.

One of the quirks of the House committee bill is a provision which in effect leaves a man with \$100,000 of income owing about \$1.02 to the Treasury after he has paid the applicable existing surtaxes plus the new 12½% defense surtax, using the \$100,000 for the purpose.

It is contended officially by the committee that this oversight has been repaired, and contrarily, by entirely competent sources within

the committee, that it has not; that by faulty language the bill would in effect establish below \$100,000 a ceiling upon any income, other than from interest on tax exempted, in the U. S.

The explanation of how this works out is unbelievably esoteric and complicated. In any case, however, each year the maximum surtax rates have been applicable upon increasingly lower levels of income, to the point where a combined individual "normal" rate of 3% plus a surtax rate of 81% is applicable upon all income over \$80,000.

Thus the Congress is moving, almost inexorably toward the proposition once advocated by the Great Franklin, that no one in the U. S. should have a retained income of more than \$25,000.

In this connection observers agree that there is a way by which this trend toward the socialization of upper middle to moderately well-to-do income could be stopped at some level, say perhaps \$50,000. Off hand, but only off-hand, this method of resisting income socialization sounds patently ridiculous, but if any one has a good friend of reasonable economic literacy in Congress, check it with him:

Provide by Congress, by an appropriation or otherwise, for an average salary of \$50,000 for some 200 top labor leaders—the labor leaders who lead the drive for socialized personal income. (Not a nickel shall be an "expense account".) Give some \$25,000, some \$50,000, a fewer number \$75,000

a year, and a substantial number, \$100,000.

This would provide a vested interest in take home pay after taxes in the upper brackets among the very union leaders who are agitating for the *de facto* socialization of the income of the "rich."

It might not be necessary for the taxpayers to pay all this 200 times \$50,000. Even if taxpayers did pay it all, however, the total cost would aggregate only \$10 millions, probably not more than the cost of a free school lunch program for the children of the Hottentots under Point IV.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

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